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PETROLEUM & RESOURCES CORP
Form N-CSRS
July 28, 2003

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT
OF
REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-02736

Name of Registrant: PETROLEUM & RESOURCES CORPORATION

Address of Registrant: 7 St. Paul Street, Suite 1140
Baltimore, MD 21202

Name and address of agent for service: Lawrence L. Hooper, Jr., Esq.
7 St. Paul Street, Suite 1140
Baltimore, MD 21202

Registrant's telephone number, including area code: (410) 752-5900

Date of fiscal year end: December 31

Date of reporting period: January 1, 2003 - June 30, 2003

Item 1: Reports to Shareholders

[LOGO] Petroleum & Resources Corporation

[LOGO] PETROLEUM & RESOURCES CORPORATION

(R)
SEMI-ANNUAL REPORT

June 30, 2003

LETTER TO STOCKHOLDERS

We submit herewith the audited financial statements of the Corporation for the six months ended June 30, 2003. In addition, there is the report of independent auditors, a schedule of investments, along with other financial information.

Net assets of the Corporation at June 30, 2003 were \$22.36 per share on 21,311,767 shares outstanding, compared with \$20.98 per share at December 31, 2002 on 21,510,067 shares outstanding. On March 1, 2003, a distribution of

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\$0.13 per share was paid, consisting of \$0.09 from 2002 long-term capital gain, \$0.03 from 2002 investment income and \$0.01 from 2003 investment income, all taxable in 2003. A 2003 income dividend of \$0.13 per share was paid on June 1, 2003, and another \$0.13 investment income dividend has been declared to shareholders of record August 15, 2003, payable September 1, 2003.

Net investment income for the six months ended June 30, 2003 amounted to \$3,942,668, compared with \$4,655,158 for the same period in 2002. These earnings are equal to \$0.18 and \$0.22 per share on the average number of shares outstanding during each period.

Net capital gain realized on investments for the six months ended June 30, 2003 amounted to \$3,283,072, the equivalent of \$0.15 per share.

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. 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.

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,
/s/ DOUGLAS G. OBER
Douglas G. Ober,
Chairman, President and
Chief Executive Officer

July 18, 2003

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2003

Assets

Investments* at value:

| | |
|--|---------------|
| Common stocks and convertible securities (cost \$265,867,709) | \$412,180,065 |
| Short-term investments (cost \$63,360,838) | 63,360,838 |
| Securities lending collateral (cost \$6,207,374) | 6,207,374 |
| | \$481,748, |

Cash

197,

Receivables:

| | |
|-----------------------------------|--------|
| Investment securities sold | 592, |
| Dividends and interest | 495, |
| Prepaid expenses and other assets | 1,339, |

Total Assets

484,372,

Liabilities

| | |
|---------------------------------|------|
| Investment securities purchased | 162, |
|---------------------------------|------|

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| | |
|---|------------|
| Open written option contracts at value (proceeds \$227,414) | 262, |
| Obligations to return securities lending collateral | 6,207, |
| Accrued expenses | 1,195, |
| <hr style="border-top: 1px dashed black;"/> | |
| Total Liabilities | 7,828, |
| <hr style="border-top: 1px dashed black;"/> | |
| Net Assets | \$476,544, |
| <hr style="border-top: 1px dashed black;"/> | |
| Net Assets | |
| Common Stock at par value \$1.00 per share, authorized 50,000,000 shares; issued and outstanding 21,311,767 shares | \$ 21,311, |
| Additional capital surplus | 303,968, |
| Undistributed net investment income | 1,779, |
| Undistributed net realized gain on investments | 3,208, |
| Unrealized appreciation on investments | 146,277, |
| <hr style="border-top: 1px dashed black;"/> | |
| Net Assets Applicable to Common Stock | \$476,544, |
| <hr style="border-top: 1px dashed black;"/> | |
| Net Asset Value Per Share of Common Stock | \$22 |
| <hr style="border-top: 1px dashed black;"/> | |

* 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

Six Months Ended June 30, 2003

| | |
|--|--------------|
| Investment Income | |
| Income: | |
| Dividends | \$ 5,403,378 |
| Interest and other income | 452,108 |
| <hr style="border-top: 1px dashed black;"/> | |
| Total income | 5,855,486 |
| <hr style="border-top: 1px dashed black;"/> | |
| Expenses: | |
| Investment research | 830,427 |
| Administration and operations | 524,534 |
| Directors' fees | 109,000 |
| Reports and stockholder communications | 147,449 |
| Transfer agent, registrar and custodian expenses | 84,198 |
| Auditing and accounting services | 38,128 |
| Legal services | 10,262 |
| Occupancy and other office expenses | 93,419 |
| Travel, telephone and postage | 32,352 |
| Other | 43,049 |
| <hr style="border-top: 1px dashed black;"/> | |
| Total expenses | 1,912,818 |
| <hr style="border-top: 1px dashed black;"/> | |
| Net Investment Income | 3,942,668 |
| <hr style="border-top: 1px dashed black;"/> | |
| Realized Gain and Change in Unrealized Appreciation on Investments | |
| Net realized gain on security transactions | 3,283,072 |

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| | |
|--|--------------|
| Change in unrealized appreciation on investments | 27,496,801 |
| <hr style="border-top: 1px dashed black;"/> | |
| Net Gain on Investments | 30,779,873 |
| <hr style="border-top: 1px dashed black;"/> | |
| Change in Net Assets Resulting from Operations | \$34,722,541 |
| <hr style="border-top: 1px dashed black;"/> | |

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

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STATEMENTS OF CHANGES IN NET ASSETS

| | Six Months Ended June 30, 2003 | Year Ended December 31, 2002 |
|--|-----------------------------------|---------------------------------|
| <hr style="border-top: 1px dashed black;"/> | | |
| From Operations: | | |
| Net investment income | \$ 3,942,668 | \$ 8,983,077 |
| Net realized gain on investments | 3,283,072 | 14,332,921 |
| Change in unrealized appreciation on investments | 27,496,801 | (82,017,470) |
| <hr style="border-top: 1px dashed black;"/> | | |
| Change in net assets resulting from operations | 34,722,541 | (58,701,472) |
| <hr style="border-top: 1px dashed black;"/> | | |
| Dividends to Stockholders from: | | |
| Net investment income | (3,638,128) | (9,069,217) |
| Net realized gain from investment transactions | (1,934,492) | (14,302,830) |
| <hr style="border-top: 1px dashed black;"/> | | |
| Decrease in net assets from distributions | (5,572,620) | (23,372,047) |
| <hr style="border-top: 1px dashed black;"/> | | |
| From Capital Share Transactions: | | |
| Value of shares issued in payment of distributions | -- | 9,954,365 |
| Cost of shares purchased (Note 4) | (3,880,692) | (3,097,181) |
| <hr style="border-top: 1px dashed black;"/> | | |
| Change in net assets from capital share transactions | (3,880,692) | 6,857,184 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Total Change in Net Assets | 25,269,229 | (75,216,335) |
| <hr style="border-top: 1px dashed black;"/> | | |
| Net Assets: | | |
| Beginning of period | 451,275,463 | 526,491,798 |
| <hr style="border-top: 1px dashed black;"/> | | |
| End of period (including undistributed net investment income of \$1,779,431 and \$1,474,891, respectively) | \$476,544,692 | \$451,275,463 |
| <hr style="border-top: 1px dashed black;"/> | | |

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

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NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

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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 June 30, 2003 was \$335,668,460, and net unrealized appreciation aggregated \$146,307,231, of which the related gross unrealized appreciation and depreciation were \$176,102,378 and \$29,795,147, 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

Purchases and sales of portfolio securities, other than options and short-term investments, during the six months ended June 30, 2003 were \$9,346,377 and \$28,301,885, 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 June 30, 2003 can be found on page 10.

Transactions in written covered call and collateralized put options during the six months ended June 30, 2003 were as follows:

| | Covered Calls | | Collateralized Puts | |
|---|---------------|-----------|---------------------|-----------|
| | Contracts | Premiums | Contracts | Premiums |
| Options outstanding, December 31, 2002 | 625 | \$ 58,228 | 300 | \$ 32,392 |
| Options written | 1,550 | 197,266 | 1,400 | 190,792 |
| Options terminated in closing purchase | | | | |

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| | | | | |
|---------------------------------------|-------|----------|---------|-----------|
| transactions | -- | -- | (100) | (10,143) |
| Options expired | (825) | (81,427) | (1,100) | (159,694) |
| ----- | | | | |
| Options outstanding, June 30, 2003 | 1,350 | 174,067 | 500 | 53,347 |
| ----- | | | | |

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

4. CAPITAL STOCK

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

On December 27, 2002, the Corporation issued 521,854 shares of its Common Stock at a price of \$19.075 per share (the average market price on December 9, 2002) to stockholders of record November 25, 2002 who elected to take stock in payment of the distribution from 2002 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 2003 and 2002 were as follows:

| | Shares | | Amount | |
|---|--------------------------------|------------------------------|--------------------------------|------------------------------|
| | Six months ended June 30, 2003 | Year ended December 31, 2002 | Six months ended June 30, 2003 | Year ended December 31, 2002 |
| | ----- | ----- | ----- | ----- |
| Shares issued in payment of dividends | -- | 521,854 | \$ -- | \$ 9,954,365 |
| Shares purchased (at a weighted average discount from net asset value of 8.3% and 8.9%, respectively) | (198,300) | (159,350) | (3,880,692) | (3,097,181) |
| Net change | (198,300) | 362,504 | \$(3,880,692) | \$ 6,857,184 |
| | ----- | ----- | ----- | ----- |

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NOTES TO FINANCIAL STATEMENTS (continued)

The cost of the 213,200 shares of Common Stock held by the Corporation at June 30, 2003 and of the 14,900 shares of Common Stock held at December 31, 2002 amounted to \$4,165,909 and \$285,217 on each respective date.

The Corporation has an employee incentive stock option and stock appreciation

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rights plan which provides for the 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 2003, there were 152,012 options outstanding at a weighted average exercise price of \$18.0662 per share. During the six months ended June 30, 2003, the Corporation granted options including stock appreciation rights for 21,258 shares of Common Stock with an exercise price of \$19.285. During the six months ended June 30, 2003, stock appreciation rights relating to 10,514 stock option shares were exercised at a weighted average market price of \$20.0289 per share and the stock options relating to these rights with a weighted average exercise price of \$10.6666 per share were cancelled. Stock options and stock appreciation rights relating to 25,943 shares, with a weighted average exercise price of \$19.4609, were cancelled. At June 30, 2003, there were outstanding exercisable options to purchase 46,232 common shares at \$9.0317-\$25.2538 per share (weighted average price of \$17.3058) and unexercisable options to purchase 90,581 common shares at \$11.6367-\$25.2538 per share (weighted average price of \$19.0276). The weighted average remaining contractual life of outstanding exercisable and unexercisable options was 5.0377 years and 6.6797 years, respectively. The total compensation expense for stock options and stock appreciation rights recognized for the six months ended June 30, 2003 was \$99,616. At June 30, 2003, there were 279,614 shares available for future option grants.

5. RETIREMENT PLANS

The Corporation provides retirement benefits for its employees under a non-contributory qualified defined benefit pension plan. The benefits are based on years of service and compensation during the last five years of employment. The Corporation's current funding policy is to contribute annually to the plan only those amounts that can be deducted for federal income tax purposes. As of June 30, 2003, the plan assets, consisting primarily of investments in individual stocks, bonds and mutual funds were \$3,349,405. In determining the actuarial present value of the projected benefit obligation, the interest rate used for the weighted average discount rate was 6.75%, the expected rate of annual salary increases was 7.0%, and the long-term expected rate of return on plan assets was 8.0%. The projected benefit obligation as of June 30, 2003 was \$3,854,538. Prepaid pension cost included in other assets at June 30, 2003 was \$900,956.

In addition, the Corporation has a nonqualified benefit plan which provides employees with defined retirement benefits to supplement the qualified plan. The Corporation does not provide postretirement medical benefits.

6. EXPENSES

The cumulative amount of accrued expenses at June 30, 2003 for employees and former employees of the Corporation was \$1,052,222. Aggregate remuneration paid or accrued during the six months ended June 30, 2003 to key employees and directors amounted to \$655,563.

7. PORTFOLIO SECURITIES LOANED

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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 June 30, 2003, the Corporation had securities on loan of \$5,857,056 and held collateral of \$6,207,374, consisting of repurchase agreements.

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FINANCIAL HIGHLIGHTS

| | Six Months Ended | | Year Ended December 31 | | | |
|--|------------------|------------------|------------------------|---------|---------|---------|
| | June 30, 2003 | June 30, 2002 | 2002 | 2001 | 2000 | 1999 |
| <hr style="border-top: 1px dashed black;"/> | | | | | | |
| Per Share Operating Performance* | | | | | | |
| Net asset value, beginning of period | \$20.98 | \$24.90 | \$24.90 | \$32.69 | \$26.32 | \$22.87 |
| <hr style="border-top: 1px dashed black;"/> | | | | | | |
| Net investment income | 0.18 | 0.22 | 0.42 | 0.49 | 0.37 | 0.48 |
| Net realized gains and change in un realized appreciation (depreciation) and other changes | 1.44 | (0.31) | (3.20) | (6.81) | 7.67 | 4.67 |
| <hr style="border-top: 1px dashed black;"/> | | | | | | |
| Total from investment operations | 1.62 | (0.09) | (2.78) | (6.32) | 8.04 | 5.15 |
| <hr style="border-top: 1px dashed black;"/> | | | | | | |
| Less distributions | | | | | | |
| Dividends from net investment income | (0.17) | (0.17) | (0.43) | (0.43) | (0.39) | (0.48) |
| Distributions from net realized gains | (0.09) | (0.09) | (0.68) | (1.07) | (1.35) | (1.07) |
| <hr style="border-top: 1px dashed black;"/> | | | | | | |
| Total distributions | (0.26) | (0.26) | (1.11) | (1.50) | (1.74) | (1.55) |
| <hr style="border-top: 1px dashed black;"/> | | | | | | |
| Capital share repurchases | 0.02 | -- | 0.01 | 0.06 | 0.28 | 0.01 |
| Reinvestment of distributions | -- | -- | (0.04) | (0.03) | (0.21) | (0.16) |
| <hr style="border-top: 1px dashed black;"/> | | | | | | |

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| | | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| Total capital share transactions | 0.02 | -- | (0.03) | 0.03 | 0.07 | (0.15) |
| ----- | | | | | | |
| Net asset value, end of period | \$22.36 | \$24.55 | \$20.98 | \$24.90 | \$32.69 | \$26.32 |
| ----- | | | | | | |
| Per share market price, end of period | \$20.60 | \$22.77 | \$19.18 | \$23.46 | \$27.31 | \$21.50 |
| ----- | | | | | | |
| Total Investment Return | | | | | | |
| Based on market price | 8.8% | (1.9)% | (13.7)% | (8.7)% | 36.1% | 13.3% |
| Based on net asset value | 7.9% | (0.3)% | (11.1)% | (19.0)% | 33.1% | 23.8% |
| ----- | | | | | | |
| Ratios/Supplemental Data | | | | | | |
| Net assets, end of period (in 000's) | \$476,545 | \$519,128 | \$451,275 | \$526,492 | \$688,173 | \$565,075 |
| Ratio of expenses to average net assets | 0.84%+ | 0.46%+ | 0.49% | 0.35% | 0.59% | 0.43% |
| Ratio of net investment income to average net assets | 1.74%+ | 1.76%+ | 1.84% | 1.67% | 1.24% | 1.86% |
| Portfolio turnover | 4.68%+ | 9.71%+ | 9.69% | 6.74% | 7.68% | 11.89% |
| Number of shares outstanding at end of period (in 000's)* | 21,312 | 21,148 | 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

June 30, 2003

| | Shares | Value (A) |
|--|-----------|--------------|
| ----- | | |
| Stocks And Convertible Securities -- 86.5% | | |
| Energy -- 75.3% | | |
| Internationals -- 26.8% | | |
| BP plc ADR | 500,000 | \$21,010,000 |
| ChevronTexaco Corp. | 300,000 | 21,660,000 |
| Exxon Mobil Corp. | 1,050,000 | 37,705,500 |
| Royal Dutch Petroleum Co. | 660,000 | 30,769,200 |
| "Shell" Transport and Trading Co., plc ADR | 150,000 | 5,977,500 |
| Total S.A. ADR | 140,000 | 10,612,000 |
| | | ----- |
| | | 127,734,200 |
| | | ----- |
| Domestics -- 7.7% | | |
| Amerada Hess Corp. | 50,000 | 2,459,000 |
| ConocoPhillips | 200,000 | 10,960,000 |
| Kerr McGee Corp. | 177,153 | 7,936,454 |
| Murphy Oil Corp. | 140,000 | 7,364,000 |
| Unocal Capital Trust \$3.125 Conv. Pfd. | 72,540 | 3,568,061 |
| Unocal Corp. | 150,000 | 4,303,500 |
| | | ----- |
| | | 36,591,015 |

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| | | |
|--|---------|--------------|
| ----- | | |
| Producers -- 10.9% | | |
| Anadarko Petroleum Corp. | 55,000 | 2,445,850 |
| Apache Corp. | 147,000 | 9,563,820 |
| Devon Energy Corp. | 198,720 | 10,611,649 |
| EOG Resources, Inc. | 200,000 | 8,368,000 |
| Noble Energy, Inc. | 125,000 | 4,725,000 |
| Occidental Petroleum Corp. | 175,000 | 5,871,250 |
| Pioneer Natural Resources Co. (B) | 235,000 | 6,133,500 |
| Stone Energy Corp. (B) | 104,300 | 4,372,256 |
| | | ----- |
| | | 52,091,325 |
| | | ----- |
| Distributors -- 17.5% | | |
| Atmos Energy Corp. | 139,500 | 3,459,600 |
| Duke Energy Corp. 8.25% Conv. | | |
| Pfd. due 2004 (C) | 160,000 | 2,537,600 |
| Duke Energy Corp. | 115,000 | 2,294,250 |
| El Paso Corp. | 210,000 | 1,696,800 |
| Energen Corp. | 250,000 | 8,325,000 |
| Equitable Resources Inc. | 300,000 | 12,222,000 |
| Keyspan Corp. | 220,000 | 7,799,000 |
| Kinder Morgan, Inc. | 162,500 | 8,880,625 |
| MDU Resources Group, Inc. | 200,000 | 6,698,000 |
| National Fuel Gas Co. | 200,000 | 5,210,000 |
| | | |
| | Shares | Value (A) |
| | ----- | ----- |
| New Jersey Resources Corp. | 277,500 | \$ 9,851,250 |
| Northwestern Corp. (B) | 16,500 | 33,000 |
| Questar Corp. | 268,000 | 8,969,960 |
| TECO Energy, Inc. (C) | 200,000 | 2,398,000 |
| Williams Companies, Inc. 9.0% | | |
| FELINE PACS due 2005 | 120,000 | 1,482,000 |
| Williams Companies, Inc. | 200,000 | 1,580,000 |
| | | ----- |
| | | 83,437,085 |
| | | ----- |
| Services -- 12.4% | | |
| Baker Hughes, Inc. | 130,000 | 4,364,100 |
| BJ Services Co. (B) | 380,000 | 14,196,800 |
| Core Laboratories N.V. (B) (C) | 75,000 | 810,000 |
| GlobalSantaFe Corp. | 200,000 | 4,668,000 |
| Grant Prideco Inc. (B) | 308,000 | 3,619,000 |
| Nabors Industries Ltd. (B) | 125,000 | 4,943,750 |
| Noble Corp. (B) | 135,000 | 4,630,500 |
| Schlumberger Ltd. | 225,000 | 10,703,250 |
| Transocean Inc. (B) | 110,000 | 2,416,700 |
| Weatherford International, Ltd. (B) | 205,000 | 8,589,500 |
| | | ----- |
| | | 58,941,600 |
| | | ----- |
| Basic Industries -- 11.2% | | |
| Basic Materials & Other -- 8.3% | | |
| Albemarle Corp. | 200,000 | 5,594,000 |
| Arch Coal Inc. (C) | 250,000 | 5,745,000 |
| General Electric Co. | 350,000 | 10,038,000 |

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| | | |
|---|---------|-------------|
| Ingersoll-Rand Co. Ltd. | 100,000 | 4,732,000 |
| Philadelphia Suburban Corp. | 305,000 | 7,435,900 |
| Rohm & Haas Co. | 200,000 | 6,206,000 |
| | | ----- |
| | | 39,750,900 |
| | | ----- |
| Paper and Forest Products -- 2.9% | | |
| Boise Cascade Corp. 7.5% ACES due 2004 | 51,000 | 2,103,240 |
| Boise Cascade Corp. | 205,000 | 4,899,500 |
| MeadWestvaco Corp. | 60,000 | 1,482,000 |
| Temple-Inland Inc. | 120,000 | 5,149,200 |
| | | ----- |
| | | 13,633,940 |
| | | ----- |
| Total Stocks And Convertible Securities (Cost \$265,867,709) (D) | | 412,180,065 |
| | | ----- |

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SCHEDULE OF INVESTMENTS (continued)

June 30, 2003

| | Prin. Amt. | Value (A) |
|---|--------------|--------------|
| | ----- | ----- |
| Short-Term Investments -- 13.3% | | |
| U.S. Government Obligations -- 1.5% | | |
| U.S. Treasury Bills, 0.95%, due 8/21/03 | \$ 7,000,000 | \$ 6,990,678 |
| | | ----- |
| Certificates of Deposit -- 2.1% | | |
| Mercantile-Safe Deposit & Trust Co., 1.00%, due 7/24/03-7/25/03 | 10,000,000 | 10,000,000 |
| | | ----- |
| Commercial Paper -- 9.7% | | |
| American General Finance Corp., 1.14%, due 7/3/03 | 5,000,000 | 4,999,683 |
| Cargill, Inc., 1.07%, due 7/10/03 | 2,600,000 | 2,599,305 |
| ChevronTexaco Funding Corp., 1.15%, due 7/1/03 | 900,000 | 900,000 |
| Chevron UK, 1.20-1.22%, due 7/8/03-7/11/03 | 4,100,000 | 4,098,785 |
| Coca-Cola Enterprises, Inc., 0.99-1.22%, due 7/1/03- 7/22/03 | 5,000,000 | 4,997,767 |
| GMAC MINT, 1.23%, due 7/15/03 | 3,050,000 | 3,048,541 |
| GMAC New Center Asset Trust, 1.03%, due 7/29/03 | 1,950,000 | 1,948,438 |
| General Electric Capital Corp., | | |

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| | | |
|--|-----------|-----------|
| 0.95-1.23%, due 7/15/03-7/31/03 | 4,255,000 | 4,252,183 |
| Marsh & McLennan Companies, Inc., 1.18%, due 7/9/03 | 2,550,000 | 2,549,331 |

| | Prin. Amt. | Value (A) |
|--|--------------|---------------|
| | ----- | ----- |
| New Jersey Natural Gas, 1.05%, due 7/21/03 | \$ 2,885,000 | \$ 2,883,317 |
| Toyota Motor Credit Corp., 1.16%, due 7/8/03 | 5,000,000 | 4,998,872 |
| Verizon Network Funding Inc., 1.02-1.18%, due 7/10/03-7/17/03 | 4,100,000 | 4,098,146 |
| Wells Fargo & Company 1.01%, due 7/31/03 | 5,000,000 | 4,995,792 |
| | | ----- |
| | | 46,370,160 |
| | | ----- |
| Total Short-Term Investments (Cost \$63,360,838) | | 63,360,838 |
| | | ----- |
| Investments of Proceeds from Security Lending -- 1.3% | | |
| CS First Boston, repurchase agreement, 1.35%, due 7/1/03 | | 2,000,066 |
| JP Morgan Securities, repurchase agreement, 1.19%, 7/1/03 | | 4,207,308 |
| | | ----- |
| Total Investments of Proceeds from Security Lending (Cost \$6,207,374) | | 6,207,374 |
| | | ----- |
| Total Investments -- 101.1% (Cost \$335,435,921) | | 481,748,277 |
| Cash, receivables and other assets, less liabilities -- (1.1)% | | (5,203,585) |
| | | ----- |
| Net Assets--100.0% | | \$476,544,692 |
| | | ===== |

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) Presently non-dividend paying.
- (C) Some or all of these securities are on loan. See note 7 to financial statements.
- (D) The aggregate market value of stocks held in escrow at June 30, 2003 covering open call option contracts written was \$6,886,095. In addition, the aggregate market value of securities segregated by the custodian required to collateralize open put option contracts written was \$1,987,500.

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SCHEDULE OF OUTSTANDING OPTION CONTRACTS

June 30, 2003

| Contracts (100 shares each) | Security | Strike Price | Expiration Date | Contract | Appreciation/ (Depreciation) |
|-----------------------------------|-------------------------------|-----------------|--------------------|----------|---------------------------------|
| COVERED CALLS | | | | | |
| 150 | Amerada Hess Corp. | \$ 55 | Nov | 03 | \$ (3,326) |
| 100 | Apache Corp. | 65 | Jul | 03 | 5,499 |
| 100 | Apache Corp. | 70 | Jul | 03 | 7,100 |
| 150 | Apache Corp. | 71.38 | Jul | 03 | 19,537 |
| 100 | Devon Energy Corp. | 55 | Oct | 03 | (8,001) |
| 100 | Murphy Oil Corp. | 50 | Jul | 03 | (21,500) |
| 150 | Murphy Oil Corp. | 50 | Oct | 03 | (59,251) |
| 100 | Murphy Oil Corp. | 55 | Oct | 03 | (14,400) |
| 100 | Nabors Industries Ltd. | 47.50 | Sep | 03 | 8,999 |
| 200 | Nabors Industries Ltd. | 50 | Sep | 03 | 15,999 |
| 100 | Pioneer Natural Resources Co. | 25 | Sep | 03 | (13,951) |
| 1,350 | | | | | (63,295) |
| COLLATERALIZED PUTS | | | | | |
| 50 | Albemarle Corp. | 22.50 | Dec | 03 | 2,550 |
| 100 | ConocoPhillips | 47.50 | Aug | 03 | 7,599 |
| 100 | ConocoPhillips | 50 | Aug | 03 | 7,050 |
| 150 | ConocoPhillips | 45 | Nov | 03 | 10,649 |
| 50 | ConocoPhillips | 50 | Nov | 03 | (1) |
| 50 | Schlumberger Ltd. | 45 | Aug | 03 | 500 |
| 500 | | | | | 28,347 |
| | | | | | \$ (34,948) |

CHANGES IN PORTFOLIO SECURITIES

During the Three Months Ended June 30, 2003
(unaudited)

| | Shares | | |
|------------------------|--------------|------------|-----------------------|
| | Additions | Reductions | Held June 30, 2003 |
| Arch Coal Inc..... | 10,000 | | 250,000 |
| ConocoPhillips..... | 59,690 | | 200,000 |
| Devon Energy Corp..... | 198,720/(1)/ | 80,000 | 198,720 |
| Schlumberger Ltd..... | 35,000 | | 225,000 |

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| | | |
|------------------------------|--------------|---------|
| Anadarko Petroleum Corp..... | 195,000 | 55,000 |
| Core Laboratories N.V..... | 134,400 | 75,000 |
| Engelhard Corp..... | 124,900 | -- |
| Equitable Resources Inc..... | 61,000 | 300,000 |
| Nabors Industries, Ltd..... | 55,000 | 125,000 |
| Northwestern Corp..... | 183,500 | 16,500 |
| Ocean Energy, Inc..... | 480,000/(1)/ | -- |
| Transocean Inc..... | 90,000 | 110,000 |

/(1)/ Received .414 shares for each share of Ocean Energy, Inc. held.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Petroleum & Resources Corporation:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Petroleum & Resources Corporation (hereafter referred to as the "Corporation") at June 30, 2003, and the results of its operations, the changes in its net assets and the financial highlights for each of the fiscal periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at June 30, 2003 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Baltimore, Maryland
July 10, 2003

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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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HISTORICAL FINANCIAL STATISTICS

| December 31 | Value of Net Assets | Shares Outstanding* | Net Asset Value per Share* | Dividends from Net Investment Income per Share* | Distributions from Net Realized Gains per Share* |
|---------------|------------------------|------------------------|-------------------------------------|---|--|
| 1993..... | \$355,836,592 | 18,010,007 | \$19.76 | \$.55 | \$.87 |
| 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 |
| June 30, 2003 | 476,544,692 | 21,311,767 | 22.36 | .30+ | .09 |

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

+ Paid or declared.

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

E-mail: contact@peteres.com

Counsel: Chadbourne & Parke L.L.P.

Independent Auditors: PricewaterhouseCoopers LLP

Transfer Agent, Registrar & Custodian of Securities: The Bank of New York

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SHAREHOLDER INFORMATION AND SERVICES

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

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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.

BuyDIRECT/SM/*

BuyDIRECT is a direct purchase and sale plan, as well as a dividend reinvestment plan, sponsored and administered by our transfer agent, The Bank of New York. 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 \$7.50

A one-time fee for new accounts who are not currently registered holders.

| | |
|---|--|
| Optional Cash Investments | |
| Service Fee | \$2.50 per investment |
| Brokerage Commission | \$0.05 per share |
| Reinvestment of Dividends** | |
| Service Fee | 10% of amount invested (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 | Included |
| Book to Book Transfers | Included |

To transfer shares to another participant or to a new participant

Fees are subject to change at any time.

Minimum and Maximum Cash Investments

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

A brochure which further details the benefits and features of BuyDIRECT as well as an enrollment form may be obtained by contacting The Bank of New York.

For Non-Registered Shareholders

For shareholders whose stock is held by a broker in "street" name, The Bank of New York's Automatic Dividend Reinvestment 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

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about how you can participate in the Plan or contact The Bank of New York about the BuyDIRECT Plan.

The Corporation
Petroleum & Resources Corporation
Lawrence L. Hooper, Jr.
Vice President, Secretary and General Counsel
Seven St. Paul Street, Suite 1140,
Baltimore, MD 21202
(800) 638-2479
Website: www.peteres.com
E-mail: contact@peteres.com

The Transfer Agent
The Bank of New York
Address Shareholder Inquiries to:
Shareholder Relations Department
P.O. Box 11258 Church Street Station
New York, NY 10286
(866) 723-8330
Website: www.stockbny.com
E-mail: Shareowners@bankofny.com
Send Certificates for Transfer
and Address Changes to:
Receive and Deliver Department
P.O. Box 11002 Church Street Station
New York, NY 10286

*BuyDIRECT is a service mark of The Bank of New York.

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