

PETROLEUM & RESOURCES CORP
Form N-30B-2
April 24, 2007

PETROLEUM & RESOURCES CORPORATION

Board of Directors

| | |
|--------------------------------------|-------------------------------------|
| Enrique R. Arzac ^{1,4,5} | Thomas H. Lenagh ^{2,3} |
| Phyllis O. Bonanno ^{1,4,5} | Kathleen T. McGahran ^{2,4} |
| Daniel E. Emerson ^{1,3,5} | Douglas G. Ober ¹ |
| Frederic A. Escherich ^{2,3} | Craig R. Smith ^{2,4} |
| Roger W. Gale ^{1,3,5} | |

1. *Member of Executive Committee*
2. *Member of Audit Committee*
3. *Member of Compensation Committee*
4. *Member of Retirement Benefits Committee*
5. *Member of Nominating and Governance Committee*

Officers

| | |
|-------------------------|--|
| Douglas G. Ober | <i>Chairman, President and Chief Executive Officer</i> |
| Joseph M. Truta | <i>Executive Vice President</i> |
| Lawrence L. Hooper, Jr. | <i>Vice President, General Counsel and Secretary</i> |
| Maureen A. Jones | <i>Vice President, Chief Financial Officer and Treasurer</i> |
| Nancy J.F. Prue | <i>Vice President</i> |
| Robert E. Sullivan | <i>Vice President Research</i> |
| Christine M. Sloan | <i>Assistant Treasurer</i> |
| Geraldine H. Paré | <i>Assistant Secretary</i> |

Stock Data

| | |
|---------------------------|----------|
| Market Price (3/31/07) | \$ 34.63 |
| Net Asset Value (3/31/07) | \$ 38.36 |
| Discount: | 9.7% |

New York Stock Exchange ticker symbol: PEO

NASDAQ Mutual Fund Quotation Symbol: XPEOX

Newspaper stock listings are generally under the abbreviation: PetRs

Distributions in 2007

| | |
|---|----------------|
| From Investment Income (paid or declared) | \$ 0.16 |
| From Net Realized Gains | 0.10 |
| Total | \$ 0.26 |

2007 Dividend Payment Dates

March 1, 2007

June 1, 2007

September 1, 2007*

December 27, 2007*

*Anticipated

LETTER TO STOCKHOLDERS

We submit herewith the financial statements of the Corporation for the three months ended March 31, 2007. In addition, there is a schedule of investments, along with other financial information.

Net assets of the Corporation at March 31, 2007 were \$38.36 per share on 21,941,616 shares outstanding, compared with \$36.61 per share at December 31, 2006 on 22,180,867 shares outstanding. On March 1, 2007, a distribution of \$0.13 per share was paid, consisting of \$0.07 from 2006 long-term capital gain, \$0.03 from 2006 short-term capital gain and \$0.03 from 2006 investment income, all taxable in 2007. On April 12, 2007, an investment income dividend of \$0.13 per share was declared to stockholders of record May 17, 2007, payable June 1, 2007.

Net investment income for the three months ended March 31, 2007 amounted to \$1,934,035, compared with \$2,015,304 for the same period in 2006. These earnings are equal to \$0.09 and \$0.09 per share.

Net capital gain realized on investments for the three months ended March 31, 2007 amounted to \$18,818,288, or \$0.86 per share.

The total return on net asset value (with dividends and capital gains reinvested) of shares of the Corporation was 5.2% for the three months ended March 31, 2007. The total return on the market value of the Corporation's shares in the period was 3.9%. These compare to a 2.8% total return for the Dow Jones Oil and Gas Index and a 0.6% total return for the Standard & Poor's 500 Composite Stock Index over the same time period.

For the twelve months ended March 31, 2007, the Corporation's total return on net asset value was 15.2% and on market value was 16.2%, as the discount narrowed during the period. Comparable figures for the Dow Jones Oil & Gas Index and the S&P 500 were 14.6% and 11.8%, respectively.

The Annual Meeting was held on March 27, 2007 in Baltimore, Maryland. The results of the voting at the Annual Meeting are shown on page 14.

Current and potential stockholders 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, on our website at www.peteres.com. Also available on the website are a brief history of the Corporation, historical financial information, and other useful content. Further information regarding stockholder services is located on page 15 of this report.

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After serving 20 years on the Corporation's Board of Directors, Mr. John J. Roberts retired in March 2007. His extensive international business experience and expertise gave great insight regarding the oil and gas industries around the world and he was a major contributor to our success. We thank him for his deep commitment to the Corporation and wish him well in his retirement.

By order of the Board of Directors,

Douglas G. Ober,

Chairman, President and

Chief Executive Officer

April 13, 2007

STATEMENT OF ASSETS AND LIABILITIES

March 31, 2007

(unaudited)

Assets

Investments* at value:

| | | |
|--|----------------|----------------|
| Common stocks and convertible securities (cost \$321,568,840) | \$ 803,880,259 | |
| Short-term investments (cost \$39,147,579) | 39,147,579 | |
| Securities lending collateral (cost \$18,753,210) | 18,753,210 | \$ 861,781,048 |
| Cash | | 276,493 |
| Receivables: | | |
| Investment securities sold | | 1,400,509 |
| Dividends and interest | | 737,269 |
| Prepaid expenses and other assets | | 548,734 |
| <i>Total Assets</i> | | 864,744,053 |

Liabilities

| | | |
|---|--|------------|
| Open written option contracts at value (proceeds \$424,268) | | 428,750 |
| Obligations to return securities lending collateral | | 18,753,210 |
| Accrued expenses | | 3,905,071 |
| <i>Total Liabilities</i> | | 23,087,031 |

Net Assets \$ 841,657,022

Net Assets

| | | |
|--|-----------|--------------------|
| Common Stock at par value \$0.001 per share, authorized 50,000,000 shares; issued and outstanding 21,941,616 shares (includes 26,266 restricted shares, 3,200 restricted stock units, and 1,502 deferred stock units) (Note 6) | \$ | 21,942 |
| Additional capital surplus | | 341,243,215 |
| Accumulated other comprehensive income (Note 5) | | (1,905,660) |
| Undistributed net investment income | | 1,269,761 |
| Undistributed net realized gain on investments | | 18,720,827 |
| Unrealized appreciation on investments | | 482,306,937 |
| Net Assets Applicable to Common Stock | \$ | 841,657,022 |
| Net Asset Value Per Share of Common Stock | | \$38.36 |

* See Schedule of Investments on pages 9 and 10.

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

STATEMENT OF OPERATIONS

Three Months Ended March 31, 2007

(unaudited)

| | |
|---|----------------------|
| Investment Income | |
| Income: | |
| Dividends | \$ 2,811,769 |
| Interest and other income | 461,852 |
| <i>Total income</i> | <i>3,273,621</i> |
| Expenses: | |
| Investment research | 595,479 |
| Administration and operations | 350,152 |
| Directors' fees | 102,596 |
| Reports and stockholder communications | 56,898 |
| Transfer agent, registrar and custodian expenses | 41,377 |
| Auditing and accounting services | 22,758 |
| Legal services | 18,177 |
| Occupancy and other office expenses | 105,496 |
| Travel, telephone and postage | 17,552 |
| Other | 29,101 |
| <i>Total expenses</i> | <i>1,339,586</i> |
| Net Investment Income | 1,934,035 |
| Realized Gain and Change in Unrealized Appreciation on Investments | |
| Net realized gain on security transactions | 18,818,288 |
| Change in unrealized appreciation on investments | 19,908,918 |
| Net Gain on Investments | 38,727,206 |
| Change in Net Assets Resulting from Operations | \$ 40,661,241 |

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

STATEMENTS OF CHANGES IN NET ASSETS

| | Three Months Ended March 31, 2007 (unaudited) | Year Ended December 31, 2006 |
|--|---|---------------------------------|
| From Operations: | | |
| Net investment income | \$ 1,934,035 | \$ 9,844,108 |
| Net realized gain on investments | 18,818,288 | 69,700,053 |
| Change in unrealized appreciation on investments | 19,908,918 | 33,586,674 |
| Change in accumulated other comprehensive income (Note 5) | 61,315 | (1,966,975) |
| <i>Change in net assets resulting from operations</i> | 40,722,556 | 111,163,860 |
| Distributions to Stockholders from: | | |
| Net investment income | (664,274) | (9,928,393) |
| Net realized gain from investment transactions | (2,217,601) | (69,654,826) |
| <i>Decrease in net assets from distributions</i> | (2,881,875) | (79,583,219) |
| From Capital Share Transactions: | | |
| Value of shares issued in payment of distributions | 7,795 | 46,212,047 |
| Cost of shares purchased (Note 4) | (8,417,975) | (28,033,719) |
| Deferred compensation (Notes 4,6) | 179,282 | 374,618 |
| <i>Change in net assets from capital share transactions</i> | (8,230,898) | 18,552,946 |
| Total Increase in Net Assets | 29,609,783 | 50,133,587 |
| Net Assets: | | |
| Beginning of period | 812,047,239 | 761,913,652 |
| End of period (including undistributed net investment income of \$1,269,761 and \$0, respectively) | \$ 841,657,022 | \$ 812,047,239 |

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

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 the report. The rates of return will vary and the principal 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.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

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

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 stockholders 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 stockholders 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 at March 31, 2007 was \$379,439,805 and net unrealized appreciation aggregated \$482,341,243, of which the related gross unrealized appreciation and depreciation were \$483,421,998 and \$1,080,755, 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 of management, and recommendations to that committee are made by the research staff.

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Purchases and sales of portfolio securities, other than options and short-term investments, during the three months ended March 31, 2007 were \$4,691,020 and \$25,545,202, respectively. Options may be written (sold) or purchased by the Corporation. The Corporation, as writer of an option, bears the risks of possible illiquidity of the option markets and from movements in security values. The risk associated with purchasing an option is limited to the premium originally paid. A schedule of outstanding option contracts as of March 31, 2007 can be found on page 12.

Transactions in written covered call and collateralized put options during the three months ended March 31, 2007 were as follows:

| | Covered Calls | | Collateralized Puts | |
|---|---------------|------------|---------------------|-----------|
| | Contracts | Premiums | Contracts | Premiums |
| Options outstanding, December 31, 2006 | 1,125 | \$ 242,584 | 750 | \$ 85,950 |
| Options written | 2,250 | 311,702 | 725 | 86,922 |
| Options terminated in closing purchase transactions | | | (100) | (14,345) |
| Options expired | (1,025) | (154,142) | (650) | (71,605) |
| Options exercised | (400) | (62,798) | | |
| Options outstanding, March 31, 2007 | 1,950 | \$ 337,346 | 725 | \$ 86,922 |

4. CAPITAL STOCK

The Corporation has 5,000,000 authorized and unissued preferred shares, \$0.001 par value.

On December 27, 2006, the Corporation issued 1,369,675 shares of its Common Stock at a price of \$33.73 per share (the average market price on December 11, 2006) to stockholders of record on November 21, 2006 who elected to take stock in payment of the distribution from 2006 capital gain and investment income. In addition, 376 shares were issued at a weighted average price of \$33.76 per share as dividend equivalents to holders of deferred stock units and restricted stock units under the 2005 Equity Incentive Compensation Plan.

During 2007, the Corporation has issued 224 shares of its Common Stock at a weighted average price of \$34.32 per share as dividend equivalents to holders of deferred stock units and restricted stock units under the 2005 Equity Incentive Compensation Plan.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Transactions in Common Stock for 2007 and 2006 were as follows:

| | Shares | | Amount | |
|--|-----------------------------------|------------------------------|-----------------------------------|------------------------------|
| | Three months ended March 31, 2007 | Year ended December 31, 2006 | Three months ended March 31, 2007 | Year ended December 31, 2006 |
| Shares issued in payment of dividends | 224 | 1,370,051 | \$ 7,795 | \$ 46,212,047 |
| Shares purchased (at a weighted average discount from net asset value of 9.7% and 10.1%, respectively) | (254,977) | (827,959) | (8,417,975) | (28,033,719) |
| Net activity under the Equity Based Compensation Plans | 15,502 | 17,703 | 179,282 | 374,618 |
| Net change | (239,251) | 559,795 | \$ (8,230,898) | \$ 18,552,946 |

5. RETIREMENT PLANS

The Corporation's non-contributory qualified defined benefit pension plan covers all employees with at least one year of service. In addition, the Corporation has a non-contributory nonqualified defined benefit plan which provides eligible employees with retirement benefits to supplement the qualified plan. Benefits are based on length of service and compensation during the last five years of employment.

The funded status of the plans is recognized as an asset (overfunded plan) or a liability (underfunded plan) in the Statement of Assets and Liabilities. Changes in the funded status are recognized as accumulated other comprehensive income, a component of net assets, in the year in which the changes occur.

The Corporation's policy is to contribute annually to the plans 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. During the three months ended March 31, 2007, the Corporation contributed \$7,802 to the plans and expects to contribute an additional \$422,198 to the plans during the remainder of 2007.

The following table aggregates the components of the plans' net periodic pension cost.

| Three months ended | Year ended December 31, |
|--------------------|-------------------------|
|--------------------|-------------------------|

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| | March 31, 2007 | 2006 |
|------------------------------------|-------------------|------------|
| Service Cost | \$ 87,088 | \$ 334,876 |
| Interest Cost | 93,673 | 327,991 |
| Expected return on plan assets | (92,188) | (343,422) |
| Amortization of prior service cost | 9,429 | 37,717 |
| Amortization of net loss | 56,541 | 225,362 |
| Deferred asset gain | | 31,224 |
| Net periodic pension cost | \$ 154,543 | \$ 613,748 |

The Corporation also sponsors a defined contribution plan that covers substantially all employees. For the three months ended March 31, 2007, the Corporation expensed contributions of \$26,342. The Corporation does not provide postretirement medical benefits.

6. EQUITY-BASED COMPENSATION

Although the Stock Option Plan of 1985 (1985 Plan) has been discontinued and no further grants will be made under this plan, unexercised grants of stock options and stock appreciation rights granted in 2004 and prior years remain outstanding. The exercise price of the unexercised options and related stock appreciation rights is the fair market value on date of grant, reduced by the per share amount of capital gains paid by the Corporation during subsequent years. All options and related stock appreciation rights terminate 10 years from date of grant, if not exercised.

A summary of option activity under the 1985 Plan as of March 31, 2007, and changes during the three month period then ended is presented below:

| | Options | Weighted- Average Exercise Price | Weighted- Average Remaining Life (Years) |
|----------------------------------|----------|---|---|
| Outstanding at December 31, 2006 | 83,914 | \$ 16.19 | 4.46 |
| Exercised | (11,020) | 16.21 | |
| Outstanding at March 31, 2007 | 72,894 | \$ 15.42 | 4.09 |
| Exercisable at March 31, 2007 | 34,204 | \$ 15.07 | 3.07 |

The options outstanding as of March 31, 2007 are set forth below:

| Exercise Price | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life (Years) |
|-------------------------------|------------------------|--|--|
| \$9.00-\$11.99 | 3,975 | \$ 9.61 | 1.75 |
| \$12.00-\$14.99 | 26,840 | 12.95 | 3.46 |
| \$15.00-\$17.99 | 25,105 | 16.54 | 5.37 |
| \$18.00-\$21.99 | 16,974 | 19.00 | 3.75 |
| Outstanding at March 31, 2007 | 72,894 | \$ 15.42 | 4.09 |

Compensation cost resulting from stock options and stock appreciation rights granted under the 1985 Plan is based on

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

the intrinsic value of the award, recognized over the award's vesting period, and remeasured at each reporting date through the date of settlement. The total compensation cost recognized for the three months ended March 31, 2007 was \$173,154.

The 2005 Equity Incentive Compensation Plan (2005 Plan), adopted at the 2005 Annual Meeting, permits the grant of stock options, restricted stock awards and other stock incentives to key employees and all non-employee directors. The 2005 Plan provides for the issuance of up to 872,639 shares of the Corporation's Common Stock, including both performance and nonperformance-based restricted stock. Performance-based restricted stock awards vest at the end of a specified three year period, with the ultimate number of awards earned contingent on achievement of certain performance targets. If performance targets are not achieved, all or a portion of the performance-based awards are forfeited and become available for future grants. Nonperformance-based restricted stock awards vest ratably over a three year period and nonperformance-based restricted stock units (granted to non-employee directors) vest over a one year period. It is the current intention that employee grants will be performance-based. The 2005 Plan provides for accelerated vesting in the event of death or retirement. Non-employee directors also may elect to defer a portion of their cash compensation, with such deferred amount to be paid by delivery of deferred stock units. Outstanding awards are granted at fair market value on grant date. The number of shares of Common Stock which remain available for future grants under the 2005 Plan at March 31, 2007 is 831,256 shares.

The Corporation pays dividends and dividend equivalents on outstanding awards, which are charged to net assets when paid. Dividends and dividend equivalents paid on restricted awards that are later forfeited are reclassified to compensation expense.

A summary of the status of the Corporation's awards granted under the 2005 Plan as of March 31, 2007, and changes during the three month period then ended is presented below:

| | Shares/ Units | Weighted Average Grant-Date Fair Value |
|--|------------------|--|
| Awards | Units | |
| Balance at December 31, 2006 | 21,398 | \$ 33.16 |
| Granted: | | |
| Restricted stock | 10,983 | 31.34 |
| Restricted stock units | 3,200 | 34.70 |
| Deferred stock units | 213 | 31.42 |
| Vested | (4,000) | 33.21 |
| Forfeited | (826) | 34.32 |
| Balance at March 31, 2007 (includes 23,182 performance-based awards and 7,786 nonperformance-based awards) | 30,968 | \$ 32.63 |

Compensation costs resulting from awards granted under the 2005 Plan are based on the fair value of the award on grant date (determined by the average of the high and low price on grant date) and recognized on a straight-line basis over the requisite service period. For those awards with performance conditions, compensation costs are based on the most probable outcome and, if such goals are not met, compensation cost is not recognized and any previously recognized compensation cost is reversed. The total compensation costs for restricted stock granted to employees for the period ended March 31, 2007 were \$75,868. The total compensation costs for restricted stock units granted to non-employee directors for the period ended March 31, 2007 were \$31,346. As of March 31, 2007, there were total unrecognized compensation costs of \$707,248, a component of additional capital surplus, related to nonvested equity-based compensation arrangements granted under the 2005 Plan. Those costs are expected to be recognized over a weighted average period of 2.03 years.

7. EXPENSES

The aggregate remuneration paid during the three months ended March 31, 2007 to officers and directors amounted to \$1,059,776, of which \$140,991 was paid as fees and compensation to directors who were not officers. These amounts represent the taxable income to the Corporation's officers and directors and therefore differ from the amounts reported in the accompanying Statement of Operations that are recorded and expensed in accordance with generally accepted accounting principles.

8. 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, 2007, the Corporation had securities on loan of \$18,102,026 and held collateral of \$18,753,210, consisting of an investment trust fund which may invest in money market instruments, commercial paper, repurchase agreements, U.S. Treasury Bills, and U.S. agency obligations.

FINANCIAL HIGHLIGHTS

| | Three Months Ended (unaudited) | | Year Ended December 31 | | | | |
|---|-----------------------------------|-----------|------------------------|-----------|-----------|-----------|-----------|
| | March 31, | March 31, | 2006 | 2005 | 2004 | 2003 | 2002 |
| | 2007 | 2006 | | | | | |
| Per Share Operating Performance | | | | | | | |
| Net asset value, beginning of period | \$36.61 | \$35.24 | \$35.24 | \$28.16 | \$24.06 | \$20.98 | \$24.90 |
| Net investment income | 0.09 | 0.09 | 0.47 | 0.53* | 0.41 | 0.38 | 0.42 |
| Net realized gains and increase (decrease) in unrealized appreciation | 1.75 | 1.86 | 4.91 | 8.29 | 5.05 | 3.89 | (3.20) |
| Change in accumulated other comprehensive income (note 5) | | | (0.09) | | | | |
| Total from investment operations | 1.84 | 1.95 | 5.29 | 8.82 | 5.46 | 4.27 | (2.78) |
| Less distributions | | | | | | | |
| Dividends from net investment income | (0.03) | (0.03) | (0.47) | (0.56) | (0.44) | (0.38) | (0.43) |
| Distributions from net realized gains | (0.10) | (0.10) | (3.33) | (1.22) | (0.88) | (0.81) | (0.68) |
| Total distributions | (0.13) | (0.13) | (3.80) | (1.78) | (1.32) | (1.19) | (1.11) |
| Capital share repurchases | 0.04 | 0.03 | 0.15 | 0.10 | 0.01 | 0.02 | 0.01 |
| Reinvestment of distributions | | | (0.27) | (0.06) | (0.05) | (0.02) | (0.04) |
| Total capital share transactions | 0.04 | 0.03 | (0.12) | 0.04 | (0.04) | 0.00 | (0.03) |
| Net asset value, end of period | \$38.36 | \$37.09 | \$36.61 | \$35.24 | \$28.16 | \$24.06 | \$20.98 |
| Per share market price, end of period | \$34.63 | \$33.20 | \$33.46 | \$32.34 | \$25.78 | \$23.74 | \$19.18 |
| Total Investment Return | | | | | | | |
| Based on market price | 3.9% | 3.1% | 15.3% | 32.3% | 14.4% | 30.8% | (13.7)% |
| Based on net asset value | 5.2% | 5.7% | 15.7% | 32.0% | 23.3% | 21.2% | (11.1)% |
| Ratios/Supplemental Data | | | | | | | |
| Net assets, end of period (in 000 s) | \$841,657 | \$793,559 | \$812,047 | \$761,914 | \$618,887 | \$522,941 | \$451,275 |
| Ratio of expenses to average net assets | 0.66% | 0.56% | 0.60% | 0.59% | 0.56% | 0.74% | 0.49% |

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| | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|
| Ratio of net investment income to average net assets | 0.95% | 1.02% | 1.22% | 1.61% | 1.58% | 1.75% | 1.84% |
| Portfolio turnover | 2.40% | 13.31% | 9.95% | 10.15% | 13.44% | 10.20% | 9.69% |
| Number of shares outstanding at end of period (in 000 s) | 21,942 | 21,394 | 22,181 | 21,621 | 21,980 | 21,737 | 21,510 |

Ratios presented on an annualized basis.

** In 2005 the Corporation received dividend income of \$3,032,857, or \$0.14 per share, as a result of Precision Drilling Corp. s reorganization.*

SCHEDULE OF INVESTMENTS

March 31, 2007

(unaudited)

| | Shares | Value (A) |
|--|---------------|------------------|
| Stocks And Convertible Securities 95.5% | | |
| Energy 88.5% | | |
| Integrated 37.4% | | |
| BP plc ADR | 180,000 | \$ 11,655,000 |
| Chevron Corp. | 635,000 | 46,964,600 |
| ConocoPhillips | 556,891 | 38,063,500 |
| Exxon Mobil Corp. | 1,245,000 | 93,935,250 |
| Hess Corp. (B) | 195,000 | 10,816,650 |
| Holly Corp. | 360,000 | 21,348,000 |
| Marathon Oil Co. | 120,000 | 11,859,600 |
| Murphy Oil Corp. | 216,500 | 11,561,100 |
| Royal Dutch Shell plc ADR | 265,000 | 17,569,500 |
| Suncor Energy | 100,000 | 7,635,000 |
| Total S.A. ADR | 220,000 | 15,351,600 |
| Valero Energy Corp. | 435,000 | 28,053,150 |
| | | 314,812,950 |
| Exploration & Production 15.6% | | |
| Apache Corp. | 158,200 | 11,184,740 |
| Devon Energy Corp. | 330,000 | 22,842,600 |
| EOG Resources, Inc. | 310,000 | 22,115,400 |
| Forest Oil Corp (C) | 37,000 | 1,234,690 |
| Newfield Exploration Co. (C) | 175,000 | 7,299,250 |
| Noble Energy, Inc. | 430,000 | 25,649,500 |
| Occidental Petroleum Corp. | 400,000 | 19,724,000 |
| XTO Energy Inc. | 390,000 | 21,375,900 |
| | | 131,426,080 |
| Services 21.0% | | |
| Baker Hughes, Inc. | 205,000 | 13,556,650 |
| BJ Services Co. | 420,000 | 11,718,000 |
| Bronco Drilling Co., Inc. (C) | 4,600 | 76,222 |
| ENSCO International, Inc. | 209,150 | 11,377,760 |
| GlobalSantaFe Corp. | 290,000 | 17,887,200 |
| Grant Prideco Inc. (C) | 308,000 | 15,350,720 |
| Hercules Offshore, Inc. (B) | 250,000 | 6,565,000 |
| Nabors Industries Ltd. (C) | 520,000 | 15,428,400 |
| Noble Corp. | 200,000 | 15,736,000 |
| Schlumberger Ltd. | 560,000 | 38,696,000 |
| TODCO (C) | 200,000 | 8,066,000 |
| Weatherford International, Ltd. (C) | 493,560 | 22,259,556 |
| | | 176,717,508 |
| | Shares | Value (A) |

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| | | |
|----------------------------|---------|--------------|
| Utilities 14.5% | | |
| AGL Resources Inc. | 170,000 | \$ 7,262,400 |
| Duke Energy Corp. | 217,624 | 4,415,591 |
| Energen Corp. | 400,000 | 20,356,000 |
| Equitable Resources Inc. | 450,000 | 21,744,000 |
| MDU Resources Group, Inc. | 375,000 | 10,777,500 |
| National Fuel Gas Co. (B) | 200,000 | 8,652,000 |
| New Jersey Resources Corp. | 200,000 | 10,010,000 |
| Questar Corp. | 200,000 | 17,842,000 |
| SEMCO Energy, Inc. | 670,300 | 5,107,686 |
| Spectra Energy Corp. | 108,812 | 2,858,491 |
| Williams Companies, Inc. | 450,000 | 12,807,000 |

121,832,668

Basic Industries 7.0%

Basic Materials & Other 7.0%

| | | |
|-----------------------------------|---------|------------|
| Air Products and Chemicals, Inc. | 125,000 | 9,236,250 |
| Aqua America, Inc. | 352,000 | 7,902,400 |
| du Pont (E.I.) de Nemours and Co. | 157,500 | 7,785,225 |
| Florida Rock Industries Inc. | 105,000 | 7,065,450 |
| General Electric Co. | 454,800 | 16,081,728 |
| Martin Marietta Materials, Inc. | 5,000 | 676,000 |
| Rohm & Haas Co. | 200,000 | 10,344,000 |

59,091,053

Total Stocks And Convertible Securities

(Cost \$321,568,840) (D) \$ 803,880,259

SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2007

(unaudited)

| | Prin. Amt. | Value (A) |
|---|--------------|----------------|
| Short-Term Investments 4.7% | | |
| U.S. Government Obligations 1.1% | | |
| U.S. Treasury Bills, 5.00%, due 5/17/07 | \$ 9,000,000 | \$ 8,932,917 |
| Time Deposit 0.1% | | |
| Citibank, N.A., 4.69%, due 4/2/07 | | 461,982 |
| Commercial Paper 3.5% | | |
| American General Finance, Inc., 5.25%, due 4/19/07 | 2,800,000 | 2,792,650 |
| AIG Funding, Inc., 5.24%, due 4/3/07 | 3,600,000 | 3,598,953 |
| Chevron Funding Corp., 5.20-5.22%, due 4/5/07-4/19/07 | 7,000,000 | 6,990,063 |
| General Electric Capital Corp., 5.22%, due 4/26/07 | 600,000 | 597,825 |
| General Electric Capital Services Corp., 5.22%, due 4/12/07 | 6,400,000 | 6,389,792 |
| | Prin. Amt. | Value (A) |
| Nestlé Capital Co., 5.22%, due 4/17/07 | \$ 2,400,000 | \$ 2,394,432 |
| Toyota Motor Credit Corp., 5.22%, due 4/5/07-4/18/07 | 7,000,000 | 6,988,965 |
| | | 29,752,680 |
| Total Short-Term Investments (Cost \$39,147,579) | | 39,147,579 |
| Total Securities Lending Collateral 2.2% (Cost \$18,753,210) | | |
| Brown Brothers Investment Trust, 5.26%, due 4/2/07 | | 18,753,210 |
| Total Investments 102.4% (Cost \$379,469,629) | | 861,781,048 |
| Cash, receivables, prepaid expenses and other assets, less liabilities (2.4)% | | (20,124,026) |
| Net Assets 100.0% | | \$ 841,657,022 |

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 of the shares of this company are on loan. See note 8 to financial statements.

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(C) Presently non-dividend paying.

(D) The aggregate market value of stocks held in escrow at March 31, 2007 covering open call option contracts written was \$15,049,600. In addition, the aggregate market value of securities segregated by the Corporation's custodian required to collateralize open put option contracts written was \$2,587,500.

HISTORICAL FINANCIAL STATISTICS

(unaudited)

| Dec. 31 | Value of Net Assets | Shares Outstanding* | Net Asset Value Per Share* | Market Value Per Share* | Dividends From Investment Income Per Share* | Distributions From Net Realized Gains Per Share* | Total Dividends and Distributions Per Share* | Annual Rate of Distribution** |
|----------------|--------------------------------|--------------------------------|---|--|--|---|---|--|
| 1997 | \$ 556,452,549 | 20,134,181 | \$ 27.64 | \$ 24.33 | \$.51 | \$ 1.04 | \$ 1.55 | 6.37% |
| 1998 | 474,821,118 | 20,762,063 | 22.87 | 20.42 | .52 | 1.01 | 1.53 | 6.48 |
| 1999 | 565,075,001 | 21,471,270 | 26.32 | 21.50 | .48 | 1.07 | 1.55 | 7.00 |
| 2000 | 688,172,867 | 21,053,644 | 32.69 | 27.31 | .39 | 1.35 | 1.74 | 6.99 |
| 2001 | 526,491,798 | 21,147,563 | 24.90 | 23.46 | .43 | 1.07 | 1.50 | 5.61 |
| 2002 | 451,275,463 | 21,510,067 | 20.98 | 19.18 | .43 | .68 | 1.11 | 5.11 |
| 2003 | 522,941,279 | 21,736,777 | 24.06 | 23.74 | .38 | .81 | 1.19 | 5.84 |
| 2004 | 618,887,401 | 21,979,676 | 28.16 | 25.78 | .44 | .88 | 1.32 | 5.40 |
| 2005 | 761,913,652 | 21,621,072 | 35.24 | 32.34 | .56 | 1.22 | 1.78 | 5.90 |
| 2006 | 812,047,239 | 22,180,867 | 36.61 | 33.46 | .47 | 3.33 | 3.80 | 11.26 |
| March 31, 2007 | 841,657,022 | 21,941,616 | 38.36 | 34.63 | .16 | .10 | .26 | |

*Adjusted for 3-for-2 stock split effected in October 2000.

** The Annual Rate of Distribution is the total dividends and capital gain distributions during the year divided by the average daily market price of the Corporation's Common Stock.

Paid or declared

 PORTFOLIO SUMMARY

March 31, 2007

(unaudited)

TEN LARGEST PORTFOLIO HOLDINGS

| | <i>Market Value</i> | <i>% of Net Assets</i> |
|---------------------------------|---------------------|------------------------|
| Exxon Mobil Corp. | \$ 93,935,250 | 11.2% |
| Chevron Corp. | 46,964,600 | 5.6 |
| Schlumberger Ltd. | 38,696,000 | 4.6 |
| ConocoPhillips | 38,063,500 | 4.5 |
| Valero Energy Corp. | 28,053,150 | 3.3 |
| Noble Energy Corp. | 25,649,500 | 3.1 |
| Devon Energy Corp. | 22,842,600 | 2.7 |
| Weatherford International, Ltd. | 22,259,556 | 2.6 |
| EOG Resources, Inc. | 22,115,400 | 2.6 |
| Equitable Resources Inc. | 21,744,000 | 2.6 |
| Total | \$ 360,323,556 | 42.8% |

SECTOR WEIGHTINGS

SCHEDULE OF OUTSTANDING OPTION CONTRACTS

March 31, 2007

(unaudited)

| Contracts (100 shares each) | Security | Strike Price | Contract Expiration Date | Appreciation/ (Depreciation) |
|-----------------------------------|----------------------------------|-----------------|--------------------------------|---------------------------------|
| COVERED CALLS | | | | |
| 100 | Air Products and Chemicals, Inc. | \$ 80 | Jun 07 | \$ 2,700 |
| 100 | BP plc ADR | 70 | Oct 07 | (4,800) |
| 150 | Devon Energy Corp. | 75 | Apr 07 | 16,799 |
| 150 | EOG Resources, Inc. | 75 | Apr 07 | 8,674 |
| 100 | Holly Corp. | 60 | Jun 07 | (10,301) |
| 100 | Marathon Oil Co. | 105 | Apr 07 | 14,724 |
| 50 | Martin Marietta Materials, Inc. | 130 | Apr 07 | (25,764) |
| 100 | Noble Energy, Inc. | 70 | Aug 07 | 200 |
| 200 | Occidental Petroleum Corp. | 55 | Aug 07 | (9,601) |
| 200 | Questar Corp. | 85 | Apr 07 | (58,101) |
| 200 | Questar Corp. | 90 | Apr 07 | 61,317 |
| 200 | Questar Corp. | 90 | Jul 07 | (69,601) |
| 200 | Suncor Energy | 100 | Sep 07 | 6,899 |
| 100 | Valero Energy Corp. | 70 | Jun 07 | (5,300) |
| 1,950 | | | | (72,155) |
| COLLATERALIZED PUTS | | | | |
| 250 | Bronco Drilling Co., Inc. | 12.50 | Apr 07 | 16,250 |
| 250 | ENSCO International, Inc. | 40 | Jun 07 | 37,999 |
| 150 | Exxon Mobil Corp. | 65 | Jul 07 | 9,149 |
| 75 | Florida Rock Industries Inc. | 40 | Jun 07 | 4,275 |
| 725 | | | | 67,673 |
| | | | | \$ (4,482) |

CHANGES IN PORTFOLIO SECURITIES

During the Three Months Ended March 31, 2007

(unaudited)

| | Additions | Reductions | Shares Held March 31, 2007 |
|---------------------------------|------------------------|-------------------|---|
| Forest Oil Corp. | 37,000 | | 37,000 |
| Hercules Offshore, Inc. | 90,000 | | 250,000 |
| Spectra Energy Corp. | 108,812 ⁽¹⁾ | | 108,812 |
| Valero Energy Corp. | 25,000 | | 435,000 |
| BJ Services Co. | | 320,000 | 420,000 |
| BP plc ADR | | 150,000 | 180,000 |
| Devon Energy Corp. | | 10,000 | 330,000 |
| EOG Resources, Inc. | | 10,000 | 310,000 |
| Holly Corp. | | 10,000 | 360,000 |
| Martin Marietta Materials, Inc. | | 25,000 | 5,000 |
| Royal Dutch Shell plc ADR | | 10,000 | 265,000 |
| Valero Energy Corp. | | 25,000 | 435,000 |

⁽¹⁾ Received .50 share of Spectra Energy Corp. for each share of Duke Energy Corp. held.

Common Stock

Listed on the New York Stock 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 Registered Public Accounting Firm: PricewaterhouseCoopers LLP

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

Custodian of Securities: Brown Brothers Harriman & Co.

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of Stockholders was held on March 27, 2007. For those directors nominated, the following votes were cast:

| | votes for | votes withheld |
|------------------------|------------|----------------|
| Enrique R. Arzac: | 19,068,526 | 394,710 |
| Phyllis O. Bonanno: | 19,075,229 | 388,007 |
| Daniel E. Emerson: | 18,982,483 | 480,753 |
| Frederic A. Escherich: | 19,077,241 | 385,995 |
| Roger W. Gale: | 19,060,519 | 402,717 |
| Thomas H. Lenagh: | 18,956,323 | 506,913 |
| Kathleen T. McGahran: | 19,076,616 | 386,620 |
| Douglas G. Ober: | 19,067,662 | 395,575 |
| Craig R. Smith: | 19,077,129 | 386,107 |

A proposal to approve and ratify the selection of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Corporation for 2007 was approved with 19,214,084 votes for, 119,933 votes against, and 129,214 shares abstaining.

OTHER INFORMATION

STATEMENT ON QUARTERLY FILING OF COMPLETE PORTFOLIO SCHEDULE

In addition to publishing its complete schedule of portfolio holdings in the First and Third Quarter Reports to stockholders, the Corporation files its complete schedule of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q. The Corporation's Forms N-Q are available on the Commission's website at www.sec.gov. The Corporation's Forms N-Q may be reviewed and copied at the Commission's Public Reference Room, and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The Corporation also posts its Forms N-Q on its website at: www.peteres.com under the heading "Financial Reports".

PROXY VOTING POLICIES AND RECORD

A description of the policies and procedures that the Corporation uses to determine how to vote proxies relating to portfolio securities owned by the Corporation and information as to how the Corporation voted proxies relating to portfolio securities during the 12 month period ended June 30, 2006 are available (i) without charge, upon request, by calling the Corporation's toll free number at (800) 638-2479; (ii) on the Corporation's website by clicking on "Corporate Information" heading on the website; and (iii) on the Securities and Exchange Commission's website at <http://www.sec.gov>.

PRIVACY POLICY

In order to conduct its business, Petroleum & Resources Corporation, through its transfer agent, currently American Stock Transfer & Trust Company, collects and maintains certain nonpublic personal information about our stockholders of record with respect to their transactions in shares of our securities. This information includes the stockholder's address, tax identification or Social Security number, share balances, and dividend elections. We do not collect or maintain personal information about stockholders whose shares of our securities are held in street name by a financial institution such as a bank or broker.

We do not disclose any nonpublic personal information about you, our other stockholders or our former stockholders to third parties unless necessary to process a transaction, service an account or as otherwise permitted by law.

To protect your personal information internally, we restrict access to nonpublic personal information about our stockholders to those employees who need to know that information to provide services to our stockholders. We also maintain certain other safeguards to protect your nonpublic personal information.

STOCKHOLDER 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 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 (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 (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 Stockholders

For stockholders 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

E-mail: contact@peteres.com

The Transfer Agent

American Stock Transfer & Trust Company

Address Stockholder Inquiries to:

Stockholder Relations Department

59 Maiden Lane

New York, NY 10038

(866) 723-8330

Website: www.amstock.com

E-mail: info@amstock.com

Investors Choice Mailing Address:

Attention: Dividend Reinvestment

P.O. Box 922

Wall Street Station

New York, NY 10269-0560

Website: www.amstock.com

E-mail: info@amstock.com

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