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PETROLEUM & RESOURCES CORP

Form N-CSRS

July 26, 2006

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  
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PETROLEUM & RESOURCES CORPORATION

-----  
(Exact name of registrant as specified in charter)

7 Saint Paul Street, Suite 1140, Baltimore, Maryland 21202  
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(Address of principal executive offices) (Zip code)

Lawrence L. Hooper, Jr.  
Petroleum & Resources Corporation  
7 Saint Paul Street  
Suite 1140  
Baltimore, Maryland 21202

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

Date of fiscal year end: December 31, 2006

Date of reporting period: June 30, 2006

Item 1: Reports to Stockholders.

PETROLEUM & RESOURCES CORPORATION

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Board of Directors

Enrique R. Arzac 1,3	Thomas H. Lenagh 1,4
Phyllis O. Bonanno 1,4	Kathleen T. McGahran 2,4
Daniel E. Emerson 2,3	Douglas G. Ober 1
Frederic A. Escherich 2,3	John J. Roberts 1,3
Roger W. Gale 1,3	Craig R. Smith 2,4

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	Chairman, President and Chief Executive Officer
Joseph M. Truta	Executive Vice President

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Lawrence L. Hooper, Jr. Vice President, General Counsel and Secretary  
Maureen A. Jones Vice President, Chief Financial Officer and Treasurer  
Nancy J.F. Prue Vice President  
Robert E. Sullivan Vice President -- Research  
Christine M. Sloan Assistant Treasurer  
Geraldine H. Pare Assistant Secretary

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### Stock Data

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Market Price (6/30/06)	\$	33.99
Net Asset Value (6/30/06)	\$	38.92
Discount:		12.7%

New York Stock Exchange and Pacific Exchange ticker symbol: PEO

NASDAQ Mutual Fund Quotation Symbol: XPFOX

Newspaper stock listings are generally under the abbreviation: PetRs

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### Distributions in 2006

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From Investment Income (paid or declared)	\$	0.29
From Net Realized Gains		0.10
		-----
Total	\$	0.39
		=====

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### 2006 Dividend Payment Dates

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March 1, 2006  
June 1, 2006  
September 1, 2006  
December 27, 2006\*

\*Anticipated

[GRAPHIC APPEARS HERE]

Petroleum & Resources Corporation  
Semi-Annual Report  
June 30, 2006

investing in resources for the future (R)

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### LETTER TO STOCKHOLDERS

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We submit herewith the financial statements of the Corporation for the six months ended June 30, 2006. In addition, there is the report of the independent registered public accounting firm, a schedule of investments, and other financial information.

Net assets of the Corporation at June 30, 2006 were \$38.92 per share on 21,183,656 shares outstanding, compared with \$35.24 per share at December 31,

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2005 on 21,621,072 shares outstanding. On March 1, 2006, a distribution of \$0.13 per share was paid, consisting of \$0.07 from 2005 long-term capital gain, \$0.03 from 2005 short-term capital gain and \$0.03 from 2005 investment income, all taxable in 2006. A 2006 investment income dividend of \$0.13 per share was paid on June 1, 2006, and another \$0.13 per share investment income dividend has been declared to shareholders of record August 15, 2006, payable on September 1, 2006.

Net investment income for the six months ended June 30, 2006 amounted to \$5,219,727, compared with \$4,338,847 for the same period in 2005. These earnings are equal to \$0.25 and \$0.20 per share.

Net capital gain realized on investments for the six months ended June 30, 2006 amounted to \$39,877,100, the equivalent of \$1.88 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 website ([www.peteres.com](http://www.peteres.com)). Also available at the website are a brief history of the Corporation, historical financial information, and other useful content. Further information regarding shareholder services is located on page 15 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,

[GRAPHIC APPEARS HERE]

Douglas G. Ober,  
Chairman, President and Chief Executive Officer

July 14, 2006

### STATEMENT OF ASSETS AND LIABILITIES

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	June 30, 2006
Assets	
Investments* at value:	
Common stocks and convertible securities (cost \$328,230,601)	\$ 795, 25,
Short-term investments (cost \$25,289,631)	41,
Securities lending collateral (cost \$41,638,110)	41,
-----	
Cash	
Receivables:	
Investment securities sold	
Dividends and interest	
Prepaid pension cost	
Prepaid expenses and other assets	
-----	
Total Assets	
-----	
Liabilities	

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Investment securities purchased  
Open written option contracts at value (proceeds \$484,412)  
Obligations to return securities lending collateral  
Accrued expenses

-----  
Total Liabilities  
-----

Net Assets  
=====

Net Assets

Common Stock at par value \$1.00 per share, authorized 50,000,000 shares; issued  
and outstanding 21,183,656 shares (includes 16,109 restricted shares,  
restricted stock units for 4,800 shares, and deferred stock units for 584  
shares)  
(Note 6)

Additional capital surplus

Unearned compensation-- restricted stock awards (Note 6)

Undistributed net investment income

Undistributed net realized gain on investments

Unrealized appreciation on investments  
-----

Net Assets Applicable to Common Stock  
=====

Net Asset Value Per Share of Common Stock  
=====

\* See Schedule of Investments on pages 9 and 10.

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

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STATEMENT OF OPERATIONS  
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Six Months Ended June 30, 2006

Investment Income

Income:

Dividends

Interest and other income  
-----

Total income  
-----

Expenses:

Investment research

Administration and operations

Directors' fees

Reports and stockholder communications

Transfer agent, registrar and custodian expenses

Auditing and accounting services

Legal services

Occupancy and other office expenses

Travel, telephone and postage

Other  
-----

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Total expenses
-----
Net Investment Income
-----
Realized Gain and Change in Unrealized Appreciation on Investments
Net realized gain on security transactions
Change in unrealized appreciation on investments
-----
Net Gain on Investments
-----
Change in Net Assets Resulting from Operations
=====

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

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STATEMENTS OF CHANGES IN NET ASSETS

	Six Months E June 30, 20
	-----
From Operations:	
Net investment income	\$ 5,219,7
Net realized gain on investments	39,877,1
Change in unrealized appreciation on investments	38,055,8
-----	
Change in net assets resulting from operations	83,152,6
-----	
Distributions to Stockholders from:	
Net investment income	(3,415,5
Net realized gain from investment transactions	(2,158,5
-----	
Decrease in net assets from distributions	(5,574,1
-----	
From Capital Share Transactions:	
Value of shares issued in payment of distributions	5,7
Cost of shares purchased (Note 4)	(15,183,8
Deferred compensation (Notes 4,6)	164,4
-----	
Change in net assets from capital share transactions	(15,013,6
-----	
Total Increase in Net Assets	62,564,9
Net Assets:	
Beginning of period	761,913,6
-----	
End of period (including undistributed net investment income of \$1,910,775 and \$106,632, respectively)	\$ 824,478,5
=====	

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

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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

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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.

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### NOTES TO FINANCIAL STATEMENTS

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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 at June 30, 2006 was \$395,128,519 and net unrealized appreciation aggregated \$466,935,589, of which the related gross unrealized appreciation and depreciation were \$469,716,003 and \$2,780,414, 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.

Purchases and sales of portfolio securities, other than options and short-term investments, during the six months ended June 30, 2006 were \$48,677,573 and \$74,249,686, 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 June 30, 2006 can be found on page 12.

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Transactions in written covered call and collateralized put options during the six months ended June 30, 2006 were as follows:

	Covered Calls		Collateralized Puts	
	Contracts	Premiums	Contract	Premiums
Options outstanding, December 31, 2005	1,940	\$292,777	1,050	\$129,891
Options written	4,449	478,630	4,370	512,860
Options terminated in closing purchase transactions	(250)	(61,248)	(805)	(96,035)
Options expired	(3,152)	(353,637)	(2,035)	(229,447)
Options exercised	(1,098)	(160,730)	(200)	(28,649)
Options outstanding, June 30, 2006	1,889	\$195,792	2,380	\$288,620

#### 4. CAPITAL STOCK

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

On December 27, 2005, the Corporation issued 438,416 shares of its Common Stock at a price of \$33.64 per share (the average market price on December 12, 2005) to stockholders of record on November 22, 2005 who elected to take stock in payment of the year-end distribution from 2005 capital gain and investment income.

During 2006, the Corporation issued 164 shares of its Common Stock at a weighted average price of \$33.67 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.

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#### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Transactions in Common Stock for 2006 and 2005 were as follows:

	Shares		Amount	
	Six months ended June 30, 2006	Year ended December 31, 2005	Six months ended June 30, 2006	Year ended December 31, 2005
Shares issued in payment of dividends	164	438,416	\$ 5,722	\$ 14,748,314
Shares purchased (at a weighted average discount				

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from net asset value of 9.4% and 8.1%, respectively)	(454,700)	(806,050)	(15,183,841)	(24,891,727)
Net share activity under the 2005 Equity Incentive Compensation Plan	17,119	9,030	164,495	104,296
Net change	(437,417)	(358,604)	\$(15,013,624)	\$(10,039,117)

5. RETIREMENT PLANS

The Corporation's qualified defined benefit pension plan covers all employees with at least one year of service. In addition, the Corporation has a 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 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 six months ended June 30, 2006, the Corporation contributed \$15,604 to the plans and will contribute an additional \$15,604 to the plans during the remainder of 2006. Any further contribution cannot be determined with certainty until certain pension reform legislation, pending in Congress, is passed. Such a contribution, if any, will not exceed \$625,000.

The following table aggregates the components of the plans' net periodic pension cost for the six months ended June 30, 2006.

Service Cost	\$ 167,438
Interest Cost	163,996
Expected return on plan assets	(156,096)
Amortization of prior service cost	18,859
Amortization of net loss	112,681
Net periodic pension cost	\$ 306,878

The Corporation also sponsors a defined contribution plan that covers substantially all employees. For the six months ended June 30, 2006, the Corporation expensed contributions of \$50,994. The Corporation does not provide postretirement medical benefits.

6. STOCK-BASED COMPENSATION

The Stock Option Plan adopted in 1985 ("1985 Plan") permits the issuance of stock options and stock appreciation rights for the purchase of up to 895,522 shares of the Corporation's Common Stock at the fair market value on the date of grant. The exercise price of the options and related stock appreciation rights is reduced by the per share amount of capital gains paid by the Corporation during subsequent years. Options are exercisable beginning not less than one year after the date of grant and stock appreciation rights are exercisable beginning not less than two years after the date of grant. The stock appreciation rights allow the holders to surrender their rights to exercise



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their options and receive cash or shares in an amount equal to the difference between the option exercise price and the fair market value of the Common Stock at the date of surrender. All options terminate 10 years from the date of grant if not exercised. With the adoption of the 2005 Equity Incentive Compensation Plan at the 2005 Annual Meeting, no further grants will be made under the 1985 Plan, although unexercised awards granted in 2004 and prior years remain outstanding.

A summary of option activity under the 1985 Plan as of June 30, 2006, and changes during the period then ended is presented below:

	Options	Weighted- Average Exercise Price	Weighted- Average Remaining Life (Years)
Outstanding at December 31, 2005	103,997	\$ 18.24	5.07
Exercised	(5,186)	14.90	
Cancelled	(4,474)	20.34	
Outstanding at June 30, 2006	94,337	\$ 18.22	4.57
Exercisable at June 30, 2006	44,300	\$ 17.69	3.92

=====  
The options outstanding as of June 30, 2006 are set forth below:

Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
\$12.50-\$14.99	14,398	\$ 13.11	1.74
\$15.00-\$17.49	29,615	16.29	3.96
\$17.50-\$19.99	18,583	19.45	5.50
\$20.00-\$22.49	31,741	21.63	5.90
Outstanding at June 30, 2006	94,337	\$ 18.22	4.57

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### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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Compensation cost resulting from stock options and stock appreciation rights granted under the 1985 Plan is based on 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 six months ended June 30, 2006 was \$146,623.

The 2005 Equity Incentive Compensation Plan ("2005 Plan") 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

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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. 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 were 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 June 30, 2006 is 846,163 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 Corporations's awards granted under the 2005 Plan as of June 30, 2006, and changes during the period then ended is presented below:

Awards	Shares/ Units	Weighted Average Grant-Date Fair Value
Balance at December 31, 2005	8,630	\$28.35
Granted:		
Restricted stock	13,025	34.32
Restricted stock units	4,000	33.21
Deferred stock units	584	33.63
Vested & issued	(4,260)	28.06
Forfeited	(486)	28.06
-----		
Balance at June 30, 2006 (includes 13,025 performance-based awards and 8,468 nonperformance-based awards)	21,493	\$33.08
=====		

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, no compensation cost is recognized and any recognized compensation cost is reversed. The total compensation costs for restricted stock granted to employees for the period ended June 30, 2006 were \$81,175. The total compensation costs for restricted stock units granted to non-employee directors for the period ended June 30, 2006 were \$80,533. As of June 30, 2006, there were total unrecognized compensation costs of \$577,674 related to nonvested share-based compensation arrangements granted under the 2005 Plan. Those costs are expected to be recognized over a weighted average period of 1.98 years.

### 7. EXPENSES

The aggregate remuneration paid during the six months ended June 30, 2006 to officers and directors amounted to \$1,378,329, of which \$233,587 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

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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 June 30, 2006, the Corporation had securities on loan of \$40,738,724 and held collateral of \$41,638,110, 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.

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### FINANCIAL HIGHLIGHTS

	Six Months Ended		Year Ended December		
	June 30, 2006	June 30, 2005	2005	2004	2003
<b>Per Share Operating Performance</b>					
Net asset value, beginning of period	\$35.24	\$28.16	\$28.16	\$24.06	\$20.98
Net investment income	0.25	0.20	0.53*	0.41	0.38
Net realized gains and increase (decrease) in unrealized appreciation	3.62	4.45	8.29	5.05	3.89
<b>Total from investment operations</b>	<b>3.87</b>	<b>4.65</b>	<b>8.82</b>	<b>5.46</b>	<b>4.27</b>
<b>Less distributions</b>					
Dividends from net investment income	(0.16)	(0.18)	(0.56)	(0.44)	(0.38)
Distributions from net realized gains	(0.10)	(0.08)	(1.22)	(0.88)	(0.81)
<b>Total distributions</b>	<b>(0.26)</b>	<b>(0.26)</b>	<b>(1.78)</b>	<b>(1.32)</b>	<b>(1.19)</b>
Capital share repurchases	0.07	0.04	0.10	0.01	0.02
Reinvestment of distributions	--	--	(0.06)	(0.05)	(0.02)
<b>Total capital share transactions</b>	<b>0.07</b>	<b>0.04</b>	<b>0.04</b>	<b>(0.04)</b>	<b>0.00</b>
<b>Net asset value, end of period</b>	<b>\$38.92</b>	<b>\$32.59</b>	<b>\$35.24</b>	<b>\$28.16</b>	<b>\$24.06</b>
<b>Per share market price, end of period</b>	<b>\$33.99</b>	<b>\$29.95</b>	<b>\$32.34</b>	<b>\$25.78</b>	<b>\$23.74</b>
<b>Total Investment Return</b>					
Based on market price	5.9%	17.2%	32.3%	14.4%	30.8%
Based on net asset value	11.3%	16.8%	32.0%	23.3%	21.2%

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### Ratios/Supplemental Data

Net assets, end of period (in 000's)	\$824,479	\$705,225	\$761,914	\$618,887	\$522,941
Ratio of expenses to average net assets	0.54%+	0.61%+	0.59%	0.56%	0.74%
Ratio of net investment income to average net assets	1.30%+	1.30%+	1.61%	1.58%	1.75%
Portfolio turnover	12.46%+	12.61%+	10.15%	13.44%	10.20%
Number of shares outstanding at end of period (in 000's)	21,184	21,643	21,621	21,980	21,737

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+ 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.

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### SCHEDULE OF INVESTMENTS

-----		
June 30, 2006		
	Shares or Units	Value (A)
	-----	-----
Stocks And Convertible Securities -- 96.4%		
Energy -- 89.8%		
Integrated -- 39.4%		
Aventine Renewable Energy Holdings, Inc.	40,000	\$ 1,556,000
BP plc ADR	600,000	41,766,000
Chevron Corp.	635,000	39,408,100
ConocoPhillips	556,891	36,493,067
Exxon Mobil Corp.	1,160,000	71,166,000
Hess Corp. (B)	195,000	10,305,750
Holly Corp.	420,000	20,244,000
Kerr-McGee Corp.	215,294	14,930,639
Marathon Oil Co.	120,000	9,996,000
Murphy Oil Corp.	216,500	12,093,690
Royal Dutch Shell plc ADR	275,000	18,419,500
Suncor Energy	90,000	7,290,900
Total S.A. ADR	240,000	15,724,800
Valero Energy Corp.	355,000	23,614,600
Western Refining Inc.	75,000	1,618,500
		-----
		324,627,546
		-----
Exploration & Production -- 15.6%		
Apache Corp.	158,200	10,797,150
Devon Energy Corp.	340,000	20,539,400
EOG Resources, Inc. (B)	320,000	22,188,800
Hugoton Royalty Trust (B)	23,843	708,137
Newfield Exploration Co. (C)	175,000	8,564,500
Noble Energy, Inc.	430,000	20,149,800
Occidental Petroleum Corp.	200,000	20,510,000
Pioneer Natural Resources Co.	165,000	7,657,650

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XTO Energy Inc.	400,000	17,708,000
		-----
		128,823,437
		-----
Services -- 22.4%		
Baker Hughes, Inc.	130,000	10,640,500
BJ Services Co.	740,000	27,572,400
GlobalSantaFe Corp.	290,000	16,747,500
Grant Prideco Inc. (C)	308,000	13,783,000
Hercules Offshore, Inc. (B)	150,000	5,250,000
Nabors Industries Ltd.		
(B) (C)	520,000	17,570,800
Noble Corp.	200,000	14,884,000
Precision Drilling Trust (B)	300,000	9,960,000
Schlumberger Ltd.	560,000	36,461,600
TODCO (C)	175,000	7,148,750
Weatherford International, Ltd. (C)	493,560	24,490,447
		-----
		184,508,997
		-----
	Shares or Units	Value (A)
	-----	-----
Utilities -- 11.8%		
AGL Resources Inc.	170,000	\$ 6,480,400
Duke Energy Corp.	217,624	6,391,617
Energen Corp.	400,000	15,364,000
Equitable Resources Inc.	450,000	15,075,000
MDU Resources Group, Inc.	250,000	9,152,500
National Fuel Gas Co.	200,000	7,028,000
New Jersey Resources Corp.	200,000	9,356,000
Questar Corp.	200,000	16,098,000
Semco Energy, Inc.	325,200	1,808,112
Williams Companies, Inc.	450,000	10,512,000
		-----
		97,265,629
		-----
Coals -- 0.6%		
Arch Coal Inc.	30,000	1,271,100
Consol Energy Inc.	80,000	3,737,600
		-----
		5,008,700
		-----
Basic Industries -- 6.6%		
Basic Materials & Other -- 6.6%		
Air Products and Chemicals, Inc.		
	125,000	7,990,000
Aqua America, Inc.	380,000	8,660,200
Arkema Inc.	6,000	225,900
du Pont (E.I.) de Nemours and Co.	157,500	6,552,000
Florida Rock Industries Inc.	75,000	3,725,250
General Electric Co.	454,800	14,990,208
Martin Marietta Materials, Inc.	30,000	2,734,500
Rohm & Haas Co.	200,000	10,024,000
		-----
		54,902,058

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Total Stocks And Convertible Securities  
 (Cost \$328,230,601) (D) \$795,136,367

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SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2006		
	Prin. Amt.	Value (A)
	-----	-----
Short-Term Investments -- 3.1%		
U.S. Government Obligations -- 2.1%		
U.S. Treasury Bills		
4.74%, due 8/17/06	\$17,500,000	\$17,391,704
		-----
Time Deposit -- 0.0%		
Wachovia Corp.,		
4.50%, due 7/3/06		112,494
		-----
Commercial Paper -- 1.0%		
American General Finance,		
Inc.,		
5.24-5.25%, due		
7/13/06-7/20/06	3,500,000	3,492,760
Chevron Funding Co.,		
5.23%, due 7/18/06	2,000,000	1,995,061
General Electric Capital		
Corp., 5.21%, due 7/6/06	1,300,000	1,299,059
Toyota Motor Credit Corp.,		
5.21%, due 7/11/06	1,000,000	998,553
		-----
		7,785,433
		-----
Total Short-Term Investments		
(Cost \$25,289,631)		\$25,289,631
		-----
		Value (A)
		-----
Securities Lending Collateral -- 5.1%		
Brown Brothers Investment Trust,		
5.16%, due 7/3/06		\$41,638,110
		-----
Total Securities Lending Collateral		
(Cost \$41,638,110)		41,638,110
		-----
Total Investments -- 104.6%		
(Cost \$395,158,342)		862,064,108
		-----
Cash, receivables, prepaid expenses		
and other assets, less		
liabilities -- (4.6)%		(37,585,524)
		-----
Net Assets -- 100.0%		\$824,478,584
		=====

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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.
- (C) Presently non-dividend paying.
- (D) The aggregate market value of stocks held in escrow at June 30, 2006 covering open call option contracts written was \$10,244,778. In addition, the aggregate market value of securities segregated by the Corporation's custodian required to collateralize open put option contracts written was \$11,865,000.

### HISTORICAL FINANCIAL STATISTICS

December 31	Value of Net Assets	Shares Outstanding*	Net Asset Value per Share*	Dividen from Net Inves Incom per Sha
1996.....	\$ 484,588,990	19,598,729	\$ 24.73	\$ .5
1997.....	556,452,549	20,134,181	27.64	.5
1998.....	474,821,118	20,762,063	22.87	.5
1999.....	565,075,001	21,471,270	26.32	.4
2000.....	688,172,867	21,053,644	32.69	.3
2001.....	526,491,798	21,147,563	24.90	.4
2002.....	451,275,463	21,510,067	20.98	.4
2003.....	522,941,279	21,736,777	24.06	.3
2004.....	618,887,401	21,979,676	28.16	.4
2005.....	761,913,652	21,621,072	35.24	.5
June 30, 2006.....	824,478,584	21,183,656	38.92	.2

\* Adjusted to reflect the 3-for-2 stock split effected in October 2000.  
+ Paid or declared.

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### PORTFOLIO SUMMARY

June 30, 2006

#### TEN LARGEST PORTFOLIO HOLDINGS

	Market Value	% of Net Assets
Exxon Mobil Corp	\$ 71,166,000	8.6
BP plc ADR	41,766,000	5.1
Chevron Corp.	39,408,100	4.8
ConocoPhillips	36,493,067	4.4
Schlumberger Ltd.	36,461,600	4.4
BJ Services Co.	27,572,400	3.3
Weatherford International, Ltd.	24,490,447	3.0
Valero Energy Corp.	23,614,600	2.9
EOG Resources, Inc.	22,188,800	2.7
Devon Energy Corp.	20,539,400	2.5

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Total	----- \$ 343,700,414 -----	----- 41.7% -----
-------	----------------------------------	-------------------------

SECTOR WEIGHTINGS

[GRAPHIC APPEARS HERE]

Integrated	39.4%
Exploration & Production	15.6%
Services	22.4%
Utilities	11.8%
Coals	0.6%
Basic Materials & Other	6.6%
Cash & Equivalent	3.1%

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SCHEDULE OF OUTSTANDING OPTION CONTRACTS

June 30, 2006

Contracts (100 shares each)	Security	Strike Price	Contract Expirat Date
-----			
COVERED CALLS			
59	Air Products and Chemicals, Inc.....	\$ 70	Sep 0
100	Apache Corp.....	85	Jul 0
200	Arch Coal Inc.....	45	Jul 0
300	Consol Energy Inc.....	45	Oct 0
30	Martin Marietta Materials, Inc.....	140	Oct 0
100	Murphy Oil Corp.....	55	Jul 0
200	Newfield Exploration Co.....	50	Sep 0
100	Rohm & Haas Co.....	55	Oct 0
500	Total S.A. ADR.....	75	Aug 0
100	XTO Energy Inc.....	45	Aug 0
100	XTO Energy Inc.....	50	Aug 0
100	XTO Energy Inc.....	55	Aug 0
-----			
1,889			
-----			

COLLATERALIZED PUTS

245	Arch Coal Inc.....	30	Jul 0
100	Baker Hughes, Inc.....	55	Jul 0
75	Baker Hughes, Inc.....	60	Jul 0
100	Florida Rock Industries Inc.....	45	Sep 0
100	Grant Prideco Inc.....	35	Jul 0
200	Marathon Oil Co.....	60	Jul 0
75	Marathon Oil Co.....	65	Jul 0
100	Marathon Oil Co.....	75	Jul 0
100	Marathon Oil Co.....	55	Oct 0
85	Martin Marietta Materials, Inc.....	80	Jul 0
100	Suncor Energy.....	65	Jul 0



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100	Suncor Energy.....	70	Jul 0
200	Suncor Energy.....	60	Sep 0
150	TODCO.....	30	Jul 0
150	TODCO.....	35	Jul 0
100	TODCO.....	40	Jul 0
150	TODCO.....	30	Sep 0
100	Valero Energy Corp.....	57.50	Jul 0
150	Valero Energy Corp.....	47.50	Sep 0
-----			
	2,380		
-----			

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CHANGES IN PORTFOLIO SECURITIES

During the Three Months Ended June 30, 2006  
(unaudited)

	Additions	Red
	-----	-----
Arch Coal Inc.....	120,000 (1)	29
Arkema Inc.....	6,000 (2)	
Aventine Renewable Energy Holdings, Inc.....	40,000	
ConocoPhillips.....	46,891 (3)	
Consol Energy Inc.....	160,000 (1)	24
Exxon Mobil Corp.....	20,000	
Hercules Offshore, Inc.....	40,000	
Hess Corp.....	130,000 (1)	
Holly Corp.....	210,000 (1)	
Hugoton Royalty Trust.....	23,843 (4)	
Kerr-McGee Corp.....	112,647 (5)	
Marathon Oil Co.....	10,000	
Nabors Industries Ltd.....	260,000 (1)	
Noble Corp.....	15,000	
Schlumberger Ltd.....	280,000 (1)	
Semco Energy, Inc.....	325,200	
Suncor Energy.....	90,000	
Total S.A. ADR.....	120,000 (1)	
Tronox Inc. Class A.....	21,705	2
Tronox Inc. Class B.....	1,000	2
Valero Energy Corp.....	115,000	
Western Refining Inc.....	75,000	35
Apache Corp.....		
Burlington Resources Inc.....		6
Murphy Oil Corp.....		3
Pioneer Natural Resources Co.....		1
Smurfit-Stone Container Corp.....		30
-----		

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- (1) By stock split.
- (2) Received .05 shares for each share of Total S.A. ADR held.
- (3) Received .7214 shares of ConocoPhillips and \$46.50 in cash in exchange for each share of Burlington Resources Inc. held.
- (4) Received .059609 shares for each share of XTO Energy Inc. held.
- (5) Received 107,647 shares by stock split.

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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 Registered Public Accounting Firm: PricewaterhouseCoopers LLP  
Transfer Agent & Registrar: American Stock Transfer & Trust Co.  
Custodian of Securities: Brown Brothers Harriman & Co.

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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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, 2006, 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2006 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
Baltimore, Maryland  
July 13, 2006

### OTHER INFORMATION

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STATEMENT ON QUARTERLY FILING OF COMPLETE PORTFOLIO SCHEDULE

## Edgar Filing: PETROLEUM & RESOURCES CORP - Form N-CSRS

In addition to publishing its complete schedule of portfolio holdings in the First and Third Quarter Reports to shareholders, 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](http://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](http://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 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.

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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.

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### 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
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 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

## Edgar Filing: PETROLEUM & RESOURCES CORP - Form N-CSRS

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 10269-0560  
Website: [www.amstock.com](http://www.amstock.com)  
E-mail: [info@amstock.com](mailto: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.

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Item 2: Code(s) of Ethics for senior financial officers -  
Item not applicable to semi-annual report.

Item 3: Audit Committee Financial Expert - Item not  
applicable to semi-annual report.

Item 4: Principal Accountant Fees and Services - Item not  
applicable to semi-annual report.

Item 5: Audit Committee of Listed Registrants - Item not  
applicable to semi-annual report.

Item 6: Schedule of Investments - This schedule is included  
as part of the report to shareholders filed under Item 1 of  
this form.

Item 7: Disclosure of Proxy Voting Policies and Procedures  
for Closed-End Management Investment Companies - Item not  
applicable to semi-annual report.

Item 8: Portfolio Managers of Closed-End Management  
Investment Companies - Item not applicable to semi-annual  
report.

Item 9: Purchases of Equity Securities by Closed-End  
Management Investment Company and Affiliated Purchasers.

		Total	Maximum
		Number of	Number (or
		Shares (or	Approximate
		Units)	Dollar Value)
		Purchased	of Shares (or
		as Part of	Units) that
		Publicly	May Yet Be
		Announced	Purchased
		Plans or	Under the
			Plans or
Total			
Number			
of	Average		
Shares	Price		
(or	Paid per		
Units)	Share (or		

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Period(2)	Purchased	Unit)	Programs	Programs
Jan. 2006	51,250	\$ 34.92	51,250	983,427
Feb. 2006	88,000	\$ 33.63	88,000	895,427
Mar. 2006	98,500	\$ 32.81	98,500	796,427
Apr. 2006	59,400	\$ 34.43	59,400	737,527
May 2006	60,200	\$ 34.33	60,200	677,327
June 2006	97,350	\$ 31.75	97,350	579,977
Total	454,700 (1)	\$ 33.39	454,700 (2)	579,977 (2)

(1) There were no shares purchased other than through a publicly announced plan or program.

(2.a) The Plan was announced on December 9, 2004 and was reapproved on December 8, 2005.

(2.b) The share amount approved in 2004 was 5% of outstanding shares, or approximately 1,080,746 shares, and in 2005 was 5% of outstanding shares, or approximately 1,060,377 shares.

(2.c) The Plan will expire on or about December 8, 2006.

(2.d) None.

(2.e) None.

Item 10. Submission of Matters to a Vote of Security Holders.

There were no material changes to the procedures by which shareholders may recommend nominees to the registrant's board of directors made or implemented after the registrant last provided disclosure in response to the requirements of Item 7(d)(2)(ii)(G) of Schedule 14A (17 CFR 240.14a-101), or this Item.

Item 11. Controls and Procedures.

Conclusions of principal officers concerning controls and procedures.

(a) As of July 12, 2006, an evaluation was performed under the supervision and with the participation of the officers of registrant, including the principal executive officer (PEO) and principal financial officer (PFO), of the effectiveness of registrant's disclosure controls and procedures. Based on that evaluation, the registrant's officers, including the PEO and PFO, concluded that, as of July 12, 2006, the registrant's disclosure controls and procedures were reasonably designed so as to ensure that material information relating to the registrant is made known to the PEO and PFO.

(b) There have been no significant changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940 (17 CFR 270.30a-3(d)) that occurred during the registrant's last fiscal half-year that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 12. Exhibits attached hereto. (Attach certifications as exhibits)

(1) Not applicable. See registrant's response to Item 2, above.

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(2) Separate certifications by the registrant's principal executive officer and principal financial officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and required by Rule 30a-2 under the Investment Company Act of 1940, are attached.

A certification by the registrant's principal executive officer and principal financial officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is attached.

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PETROLEUM & RESOURCES CORPORATION

BY: /s/ Douglas G. Ober  
-----  
Douglas G. Ober  
Chief Executive Officer  
(Principal Executive Officer)

Date: July 26, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

BY: /s/ Douglas G. Ober  
-----  
Douglas G. Ober  
Chief Executive Officer  
(Principal Executive Officer)

Date: July 26, 2006

BY: /s/ Maureen A. Jones  
-----  
Maureen A. Jones  
Vice President, Chief Financial Officer and Treasurer  
(Principal Financial Officer)

Date: July 26, 2006