

PETROLEUM & RESOURCES CORP  
Form N-30D  
April 15, 2003

**PETROLEUM & RESOURCES CORPORATION**

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**Board of Directors**

Enrique R. Arzac<sup>2,4</sup>  
Daniel E. Emerson<sup>1,3</sup>  
Edward J. Kelly, III<sup>1,4</sup>  
Thomas H. Lenagh<sup>1,4</sup>  
W.D. MacCallan<sup>3,4</sup>  
W. Perry Neff<sup>2,4</sup>

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

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

**Officers**

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

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

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**Stock Data**

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|                           |    |       |
|---------------------------|----|-------|
| Price (3/31/03)           | \$ | 19.19 |
| Net Asset Value (3/31/03) | \$ | 20.45 |
| Discount:                 |    | 6.2%  |

New York Stock Exchange and Pacific Exchange ticker symbol: PEO

NASDAQ Mutual Fund Quotation Symbol: XPEOX

Newspaper stock listings are generally under the abbreviation: PetRs

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**Distributions in 2003**

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

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**2003 Dividend Payment Dates**

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March 1, 2003

June 1, 2003

September 1, 2003\*

December 27, 2003\*

\*Anticipated

**FIRST QUARTER REPORT**

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March 31, 2003

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LETTER TO STOCKHOLDERS

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We submit herewith the financial statements of the Corporation for the three months ended March 31, 2003. In addition, there is a schedule of investments provided along with other financial information.

Net assets of the Corporation at March 31, 2003 were \$20.45 per share on 21,460,567 shares outstanding, compared with \$20.98 per share at December 31, 2002 on 21,510,067 shares outstanding. On March 1, 2003, a distribution of \$0.13 per share was paid, consisting of \$0.09 from 2002 long-term capital gain, \$0.03 from 2002 investment income and \$0.01 from 2003 investment income, all taxable in 2003. A 2003 income dividend of \$0.13 per share has been declared to shareholders of record May 16, 2003, payable June 1, 2003.

Net investment income for the three months ended March 31, 2003 amounted to \$1,627,272, compared with \$1,608,637 for the same period in 2002. These earnings are equal to \$0.08 per share on the average number of shares outstanding during each period.

Net capital gain realized on investments for the three months ended March 31, 2003 amounted to \$2,245,818, the equivalent of \$0.10 per share.

The Annual Meeting, held on March 25, 2003 in Chicago, Illinois, was well attended by shareholders. The results of the voting at the Annual Meeting are shown on page 12.

As noted in a prior report, Mr. Richard F. Koloski retired from the Corporation effective March 31, 2003. Mr. Koloski had been with the Corporation for over twenty-four years, initially as an energy analyst. He was elected President and senior portfolio manager in 1986. Mr. Koloski's years of service were recognized by the Board of Directors and shareholders at the Annual Meeting. His many contributions to the Corporation over the years are greatly appreciated by his colleagues and by the Board and his wisdom, particularly in the area of the energy industry, will be missed. We wish him the very best in his retirement.

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

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

By order of the Board of Directors,

Douglas G. Ober,

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*Chairman, President and*

*Chief Executive Officer*

April 18, 2003

## STATEMENT OF ASSETS AND LIABILITIES

March 31, 2003

(unaudited)

**Assets**

Investments\* at value:

Common stocks and convertible securities

(cost \$284,358,676)

\$ 390,633,969

Short-term investments (cost \$47,640,475)

47,640,475

\$ 438,274,444

Cash 56,694

Securities lending collateral 38,293,707

Receivables:

Investment securities sold 12,500

Dividends and interest 489,582

Prepaid expenses and other assets 1,781,434

*Total Assets* 478,908,361**Liabilities**

Investment securities purchased 190,988

Open written option contracts at value (proceeds \$172,944) 117,325

Obligations to return securities lending collateral 38,293,707

Accrued expenses 1,344,590

*Total Liabilities* 39,946,610**Net Assets** \$ 438,961,751**Net Assets**

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

21,460,567 shares

\$ 21,460,567

Additional capital surplus 306,757,064

Undistributed net investment income 2,242,389

Undistributed net realized gain on investments 2,170,819

Unrealized appreciation on investments 106,330,912

**Net Assets Applicable to Common Stock** \$ 438,961,751**Net Asset Value Per Share of Common Stock** \$20.45

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

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

## STATEMENT OF OPERATIONS

*Three Months Ended March 31, 2003**(unaudited)*

|   |                       |
|---|-----------------------|
| <b>Investment Income</b>  |                       |
| Income:   |                       |
| Dividends   | \$ 2,214,916          |
| Interest and other income   | 160,764               |
| <b>Total income</b>   | <b>2,375,680</b>      |
| Expenses:   |                       |
| Investment research   | 287,577               |
| Administration and operations   | 165,733               |
| Directors' fees   | 58,500                |
| Reports and stockholder communications                                    | 77,823                |
| Transfer agent, registrar and custodian expenses                          | 44,659                |
| Auditing and accounting services  | 19,259                |
| Legal services  | 2,279                 |
| Occupancy and other office expenses                                       | 64,096                |
| Travel, telephone and postage   | 15,573                |
| Other   | 12,909                |
| <b>Total expenses</b>   | <b>748,408</b>        |
| <b>Net Investment Income</b>  | <b>1,627,272</b>      |
| <b>Realized Gain and Change in Unrealized Appreciation on Investments</b> |                       |
| Net realized gain on security transactions                                | 2,245,818             |
| Change in unrealized appreciation on investments                          | (12,449,695)          |
| <b>Net Loss on Investments</b>  | <b>(10,203,877)</b>   |
| <b>Change in Net Assets Resulting from Operations</b>                     | <b>\$ (8,576,605)</b> |

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

## STATEMENTS OF CHANGES IN NET ASSETS

|  | Three Months Ended<br>March 31, 2003 | Year Ended<br>December 31, 2002 |
|--|--------------------------------------|---------------------------------|
|  | (unaudited)                          |                                 |
| <b>From Operations:</b>  |                                      |                                 |
| Net investment income  | \$ 1,627,272                         | \$ 8,983,077                    |
| Net realized gain on investments   | 2,245,818                            | 14,332,921                      |
| Change in unrealized appreciation on investments   | (12,449,695)                         | (82,017,470)                    |
| <i>Change in net assets resulting from operations</i>  | (8,576,605)                          | (58,701,472)                    |
| <b>Dividends to Stockholders from:</b>   |                                      |                                 |
| Net investment income  | (859,774)                            | (9,069,217)                     |
| Net realized gain from investment transactions   | (1,934,492)                          | (14,302,830)                    |
| <i>Decrease in net assets from distributions</i>   | (2,794,266)                          | (23,372,047)                    |
| <b>From Capital Share Transactions:</b>  |                                      |                                 |
| Value of shares issued in payment of distributions   |                                      | 9,954,365                       |
| Cost of shares purchased (Note 4)  | (942,841)                            | (3,097,181)                     |
| <i>Change in net assets from capital share transactions</i>  | (942,841)                            | 6,857,184                       |
| <b>Total Decrease in Net Assets</b>  | (12,313,712)                         | (75,216,335)                    |
| <b>Net Assets:</b>   |                                      |                                 |
| Beginning of period  | 451,275,463                          | 526,491,798                     |
| End of period (including undistributed net investment income of \$2,242,389 and \$1,474,891, respectively) | \$ 438,961,751                       | \$ 451,275,463                  |

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



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NOTES TO FINANCIAL STATEMENTS (unaudited)

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1. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

2. FEDERAL INCOME TAXES

The Corporation's policy is to distribute all of its taxable income to its shareholders in compliance with the requirements of the Internal Revenue Code applicable to regulated investment companies. Therefore, no federal income tax provision is required. For federal income tax purposes, the identified cost of securities, including options, at March 31, 2003 was \$332,086,653, and net unrealized appreciation aggregated \$106,360,735, of which the related gross unrealized appreciation and depreciation were \$152,288,276 and \$45,927,541, respectively.

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

3. INVESTMENT TRANSACTIONS

Purchases and sales of portfolio securities, other than options and short-term investments, during the three months ended March 31, 2003 were \$4,256,167 and \$3,821,999, respectively. Options may be written (sold) or purchased by the Corporation. The Corporation, as writer of an option, bears the market risk of an unfavorable change in the price of the security underlying the written option. The risk associated with purchasing an option is limited to the premium originally paid. A schedule of outstanding option contracts as of March 31, 2003 can be found on page 10.

Transactions in written covered call and collateralized put options during the three months ended March 31, 2003 were as follows:

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|   | Covered Calls |           | Collateralized Puts |            |
|---|---------------|-----------|---------------------|------------|
|   | Contracts     | Premiums  | Contracts           | Premiums   |
| Options outstanding, December 31, 2002              | 625           | \$ 58,228 | 300                 | \$ 32,392  |
| Options written                                     | 450           | 57,598    | 900                 | 137,445    |
| Options terminated in closing purchase transactions |               |           | (100)               | (10,143)   |
| Options expired                                     | (625)         | (58,228)  | (400)               | (44,348)   |
| Options outstanding, March 31, 2003                 | 450           | \$ 57,598 | 700                 | \$ 115,346 |

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

#### 4. CAPITAL STOCK

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

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

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

Transactions in Common Stock for 2003 and 2002 were as follows:

|   | Shares                            |                              | Amount                            |                              |
|---|-----------------------------------|------------------------------|-----------------------------------|------------------------------|
|   | Three months ended March 31, 2003 | Year ended December 31, 2002 | Three months ended March 31, 2003 | Year ended December 31, 2002 |
| Shares issued in payment of dividends   |                                   | 521,854                      | \$                                | \$ 9,954,365                 |
| Shares purchased (at a weighted average discount from net asset value of 8.5% and 8.9%, respectively) | (49,500)                          | (159,350)                    | (942,841)                         | (3,097,181)                  |
| Net change  | (49,500)                          | 362,504                      | \$ (942,841)                      | \$ 6,857,184                 |



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NOTES TO FINANCIAL STATEMENTS (continued)

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The cost of the 64,400 shares of Common Stock held by the Corporation at March 31, 2003 and the 14,900 shares of Common Stock held at December 31, 2002 amounted to \$1,228,058 and \$285,217 on each respective date.

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

Under the plan, the exercise price of the options and related stock appreciation rights is reduced by the per share amount of capital gain paid by the Corporation during subsequent years. At the beginning of 2003, there were 152,012 options outstanding at a weighted average exercise price of \$18.0662 per share. During the three months ended March 31, 2003, the Corporation granted options including stock appreciation rights for 21,258 shares of Common Stock with an exercise price of \$19.285. Stock options and stock appreciation rights relating to 25,943 shares, and having a weighted average exercise price of \$19.4609, were cancelled. At March 31, 2003, there were outstanding exercisable options to purchase 56,746 common shares at \$9.0317-\$25.2538 per share (weighted average price of \$16.0757) and unexercisable options to purchase 90,581 common shares at \$11.6367-\$25.2538 per share (weighted average price of \$19.0276). The weighted average remaining contractual life of outstanding exercisable and unexercisable options was 4.6275 years and 6.9297 years, respectively. The total compensation expense for stock options and stock appreciation rights recognized for the three months ended March 31, 2003 was \$(6,322). At March 31, 2003, there were 279,614 shares available for future option grants.

#### 5. RETIREMENT PLANS

The Corporation provides retirement benefits for its employees under a non-contributory qualified defined benefit pension plan. The benefits are based on years of service and compensation during the last five years of employment. The Corporation's current funding policy is to contribute annually to the plan only those amounts that can be deducted for federal income tax purposes. As of March 31, 2003, the plan assets, consisting primarily of investments in individual stocks, bonds and mutual funds were \$3,916,196. In determining the actuarial present value of the projected benefit obligation, the interest rate used for the weighted average discount rate was 6.75%, the expected rate of annual salary increases was 7.0%, and the long-term expected rate of return on plan assets was 8.0%. The projected benefit obligation as of March 31, 2003 was \$4,233,752. Prepaid pension cost included in other assets at March 31, 2003 was \$1,445,775.

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

#### 6. EXPENSES

The cumulative amount of accrued expenses at March 31, 2003 for employees and former employees of the Corporation was \$1,003,980. Aggregate remuneration paid or accrued during the three months ended March 31, 2003 to key employees and directors amounted to \$308,378.

7. PORTFOLIO SECURITIES LOANED

The Corporation makes loans of securities to brokers, secured by cash deposits, U.S. Government securities, or bank letters of credit. The Corporation accounts for securities lending transactions as secured financing and receives compensation in the form of fees or retains a portion of interest on the investment of any cash received as collateral. The Corporation also continues to receive interest or dividends on the securities loaned. The loans are secured at all times by collateral of at least 102% of the fair value of the securities loaned plus accrued interest. Gain or loss in the fair value of securities loaned that may occur during the term of the loan will be for the account of the Corporation. At March 31, 2003, the Corporation had securities on loan of \$36,408,208 and held collateral of \$38,293,707, consisting of cash, repurchase agreements, and commercial paper.

## FINANCIAL HIGHLIGHTS

|   | Three Months Ended |                   | Year Ended December 31 |           |           |           |           |
|---|--------------------|-------------------|------------------------|-----------|-----------|-----------|-----------|
|   | (unaudited)        |                   | 2002                   | 2001      | 2000      | 1999      | 1998      |
|   | March 31,<br>2003  | March 31,<br>2002 |                        |           |           |           |           |
| <b>Per Share Operating Performance*</b>   |                    |                   |                        |           |           |           |           |
| Net asset value, beginning of period  | \$20.98            | \$24.90           | \$24.90                | \$32.69   | \$26.32   | \$22.87   | \$27.64   |
| Net investment income   | 0.08               | 0.08              | 0.42                   | 0.49      | 0.37      | 0.48      | 0.55      |
| Net realized gains and change in<br>unrealized appreciation (depreciation)<br>and other changes | (0.48)             | 1.44              | (3.20)                 | (6.81)    | 7.67      | 4.67      | (3.73)    |
| Total from investment operations  | (0.40)             | 1.52              | (2.78)                 | (6.32)    | 8.04      | 5.15      | (3.18)    |
| Less distributions  |                    |                   |                        |           |           |           |           |
| Dividends from net investment income  | (0.04)             | (0.04)            | (0.43)                 | (0.43)    | (0.39)    | (0.48)    | (0.52)    |
| Distributions from net realized gains   | (0.09)             | (0.09)            | (0.68)                 | (1.07)    | (1.35)    | (1.07)    | (1.01)    |
| Total distributions   | (0.13)             | (0.13)            | (1.11)                 | (1.50)    | (1.74)    | (1.55)    | (1.53)    |
| Capital share repurchases   |                    |                   | 0.01                   | 0.06      | 0.28      | 0.01      |           |
| Reinvestment of distributions   |                    |                   | (0.04)                 | (0.03)    | (0.21)    | (0.16)    | (0.06)    |
| Total capital share transactions  |                    |                   | (0.03)                 | 0.03      | 0.07      | (0.15)    | (0.06)    |
| Net asset value, end of period  | \$20.45            | \$26.29           | \$20.98                | \$24.90   | \$32.69   | \$26.32   | \$22.87   |
| Per share market price, end of period   | \$19.19            | \$25.25           | \$19.18                | \$23.46   | \$27.31   | \$21.50   | \$20.42   |
| <b>Total Investment Return</b>  |                    |                   |                        |           |           |           |           |
| Based on market price   | 0.7%               | 8.2%              | (13.7)%                | (8.7)%    | 36.1%     | 13.3%     | (10.0)%   |
| Based on net asset value  | (1.9)%             | 6.1%              | (11.1)%                | (19.0)%   | 33.1%     | 23.8%     | (11.1)%   |
| <b>Ratios/Supplemental Data</b>   |                    |                   |                        |           |           |           |           |
| Net assets, end of period (in 000 s)  | \$438,962          | \$556,010         | \$451,275              | \$526,492 | \$688,173 | \$565,075 | \$474,821 |
| Ratio of expenses to average net assets   | 0.68%              | 0.62%             | 0.49%                  | 0.35%     | 0.59%     | 0.43%     | 0.31%     |
| Ratio of net investment income to<br>average net assets   | 1.47%              | 1.22%             | 1.84%                  | 1.67%     | 1.24%     | 1.86%     | 2.13%     |

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|   |        |        |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|--------|--------|
| Portfolio turnover  | 3.89%  | 2.68%  | 9.69%  | 6.74%  | 7.68%  | 11.89% | 12.70% |
| Number of shares outstanding at end of period (in 000 s)* | 21,461 | 21,148 | 21,510 | 21,148 | 21,054 | 21,471 | 20,762 |

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

*Ratios presented on an annualized basis.*

## SCHEDULE OF INVESTMENTS

March 31, 2003

(unaudited)

|   | Shares        | Value (A)        |
|---|---------------|------------------|
| <b>Stocks And Convertible Securities 89.0%</b>  |               |                  |
| <b>Energy 77.6%</b>                             |               |                  |
| <b>Internationals 26.5%</b>                     |               |                  |
| BP plc ADR (B)                                  | 500,000       | \$19,295,000     |
| ChevronTexaco Corp.                             | 300,000       | 19,395,000       |
| Exxon Mobil Corp.                               | 1,050,000     | 36,697,500       |
| Royal Dutch Petroleum Co.                       | 660,000       | 26,895,000       |
| Shell Transport and Trading Co., plc ADR        | 150,000       | 5,433,000        |
| TotalFinaElf ADR (B)                            | 140,000       | 8,857,800        |
|   |               | 116,573,300      |
| <b>Domestics 7.0%</b>                           |               |                  |
| Amerada Hess Corp.                              | 50,000        | 2,213,000        |
| ConocoPhillips                                  | 140,310       | 7,520,616        |
| Kerr McGee Corp.                                | 177,153       | 7,194,183        |
| Murphy Oil Corp.                                | 140,000       | 6,183,800        |
| Unocal Capital Trust \$3.125 Conv. Pfd.         | 72,540        | 3,545,393        |
| Unocal Corp.                                    | 150,000       | 3,946,500        |
|   |               | 30,603,492       |
| <b>Producers 13.8%</b>                          |               |                  |
| Anadarko Petroleum Corp.                        | 250,000       | 11,375,000       |
| Apache Corp.                                    | 147,000       | 9,075,780        |
| Devon Energy Corp. (B)                          | 80,000        | 3,857,600        |
| EOG Resources, Inc.                             | 200,000       | 7,912,000        |
| Noble Energy                                    | 125,000       | 4,286,250        |
| Occidental Petroleum Corp.                      | 175,000       | 5,243,000        |
| Ocean Energy, Inc.                              | 480,000       | 9,600,000        |
| Pioneer Natural Resources Co. (C)               | 235,000       | 5,898,500        |
| Stone Energy Corp. (C)                          | 104,300       | 3,502,394        |
|   |               | 60,750,524       |
| <b>Distributors 17.2%</b>                       |               |                  |
| Atmos Energy Corp.                              | 139,500       | 2,965,770        |
| Duke Energy Corp. 8.25% Conv. Pfd. due 2004 (B) | 160,000       | 2,016,000        |
| Duke Energy Corp. (B)                           | 115,000       | 1,672,100        |
| El Paso Corp. (B)                               | 210,000       | 1,270,500        |
| Energen Corp.                                   | 250,000       | 8,015,000        |
| Equitable Resources Inc.                        | 361,000       | 13,541,110       |
| Keyspan Corp.                                   | 220,000       | 7,095,000        |
| Kinder Morgan, Inc.                             | 162,500       | 7,312,500        |
| MDU Resources Group, Inc.                       | 200,000       | 5,584,000        |
| National Fuel Gas Co.                           | 200,000       | 4,374,000        |
|   | <b>Shares</b> | <b>Value (A)</b> |



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|   |         |              |
|---|---------|--------------|
| New Jersey Resources Corp.                            | 277,500 | \$ 9,060,375 |
| Northwestern Corp. (B)(C)                             | 200,000 | 420,000      |
| Questar Corp. (B)                                     | 268,000 | 7,924,760    |
| TECO Energy, Inc. (B)                                 | 200,000 | 2,126,000    |
| Williams Companies, Inc. 9.0%<br>FELINE PACS due 2005 | 120,000 | 1,119,600    |
| Williams Companies, Inc.                              | 200,000 | 916,000      |

75,412,715

**Services 13.1%**

|   |         |            |
|---|---------|------------|
| Baker Hughes, Inc. (B)                    | 130,000 | 3,890,900  |
| BJ Services Co. (B)(C)                    | 380,000 | 13,068,200 |
| Core Laboratories N.V. (B)(C)             | 209,400 | 2,177,760  |
| GlobalSantaFe Corp.                       | 200,000 | 4,130,000  |
| Grant Prideco Inc. (C)                    | 308,000 | 3,714,480  |
| Nabors Industries Ltd. (B)(C)             | 180,000 | 7,176,600  |
| Noble Corp. (C)                           | 135,000 | 4,241,700  |
| Schlumberger Ltd.                         | 190,000 | 7,221,900  |
| Transocean Inc.                           | 200,000 | 4,090,000  |
| Weatherford International,<br>Ltd. (B)(C) | 205,000 | 7,742,850  |

57,454,390

**Basic Industries 11.4%**

**Basic Materials & Other 8.6%**

|                             |         |           |
|-----------------------------|---------|-----------|
| Albemarle Corp.             | 200,000 | 4,870,000 |
| Arch Coal Inc. (B)          | 240,000 | 4,562,400 |
| Engelhard Corp.             | 124,900 | 2,675,358 |
| General Electric Co.        | 350,000 | 8,925,000 |
| Ingersoll-Rand Co. Ltd.     | 100,000 | 3,859,000 |
| Philadelphia Suburban Corp. | 305,000 | 6,694,750 |
| Rohm & Haas Co.             | 200,000 | 5,956,000 |

37,542,508

**Paper and Forest Products 2.8%**

|  |         |           |
|--|---------|-----------|
| Boise Cascade Corp. 7.5% ACES due 2004 | 51,000  | 1,962,990 |
| Boise Cascade Corp.                    | 205,000 | 4,479,250 |
| MeadWestvaco Corp. (B)                 | 60,000  | 1,366,800 |
| Temple-Inland Inc. (B)                 | 120,000 | 4,488,000 |

12,297,040

**Total Stocks And Convertible Securities**

(Cost \$284,358,676) (D) 390,633,969

## SCHEDULE OF INVESTMENTS (continued)

March 31, 2003

(unaudited)

|  | <u>Prin. Amt.</u> | <u>Value (A)</u>      |
|--|-------------------|-----------------------|
| <b>Short-Term Investments 10.9%</b>                                  |                   |                       |
| <b>U.S. Government Obligations 1.6%</b>                              |                   |                       |
| U.S. Treasury Bills, 1.10%, due 5/22/03                              | \$ 7,000,000      | \$ 6,989,092          |
| <b>Certificates of Deposit 2.3%</b>                                  |                   |                       |
| Mercantile-Safe Deposit & Trust Co., 1.10-1.15%, due 5/27/03-6/25/03 | 10,000,000        | 10,000,000            |
| <b>Commercial Paper 7.0%</b>   |                   |                       |
| AIG Funding, Inc., 1.22-1.24%, due 4/8/03-4/15/03                    | 4,050,000         | 4,048,551             |
| ChevronTexaco Corp., 1.23%, due 4/15/03                              | 3,700,000         | 3,698,230             |
| Coca-Cola Enterprises, Inc., 1.21-1.24%, due 4/10/03-4/22/03         | 5,000,000         | 4,997,555             |
| GMAC MINT, 1.21%, due 4/22/03  | 3,050,000         | 3,047,847             |
| GMAC New Center Asset Trust, 1.23%, due 4/24/03                      | 1,950,000         | 1,948,468             |
| General Electric Capital Corp., 1.23-1.25%, due 4/3/03-4/29/03       | 4,675,000         | 4,673,147             |
|  | <u>Prin. Amt.</u> | <u>Value (A)</u>      |
| International Lease Finance Corp., 1.20%, due 5/13/03                | \$ 1,195,000      | \$ 1,193,327          |
| Toyota Motor Credit Corp., 1.20%, due 4/29/03                        | 5,000,000         | 4,995,333             |
| Wells Fargo Financial, Inc., 1.18%, due 4/17/03                      | 2,050,000         | 2,048,925             |
|  |                   | <u>30,651,383</u>     |
| <b>Total Short-Term Investments</b><br>(Cost \$47,640,475)           |                   | <u>47,640,475</u>     |
| <b>Total Investments 99.9%</b><br>(Cost \$331,999,151)               |                   | 438,274,444           |
| Cash, receivables and other assets, less liabilities 0.1%            |                   | 687,307               |
| <b>Net Assets 100.0%</b>   |                   | <u>\$ 438,961,751</u> |

Notes:

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- (A) See note 1 to financial statements. Securities are listed on the New York Stock Exchange, the American Stock Exchange, or the NASDAQ.
- (B) Some or all of these securities are on loan. See Note 7 to Financial Statements.
- (C) Presently non-dividend paying.
- (D) The aggregate market value of stocks held in escrow at March 31, 2003 covering open call option contracts written was \$2,211,505. In addition, the aggregate market value of securities segregated by the custodian required to collateralize open put option contracts written was \$2,775,000.

## SCHEDULE OF OUTSTANDING OPTION CONTRACTS

March 31, 2003 (unaudited)

| Contracts<br>(100 shares<br>each) | Security                        | Contract        |                    |    | Appreciation/<br>(Depreciation) |
|-----------------------------------|---------------------------------|-----------------|--------------------|----|---------------------------------|
|                                   |                                 | Strike<br>Price | Expiration<br>Date |    |                                 |
| <b>COVERED CALLS</b>              |                                 |                 |                    |    |                                 |
| 150                               | Apache Corp.                    | \$71.38         | Jul                | 03 | \$ 4,574                        |
| 100                               | Murphy Oil Corp.                | 50              | Jul                | 03 | 1,500                           |
| 200                               | Nabors Industries Ltd.          | 45              | Jun                | 03 | (2,801)                         |
| 450                               |                                 |                 |                    |    | 3,273                           |
| <b>COLLATERALIZED PUTS</b>        |                                 |                 |                    |    |                                 |
| 100                               | Baker Hughes, Inc.              | 27.50           | Apr                | 03 | 10,500                          |
| 100                               | ConocoPhillips                  | 45              | May                | 03 | 18,999                          |
| 150                               | EOG Resources, Inc.             | 35              | Apr                | 03 | 16,249                          |
| 100                               | Ingersoll-Rand Co. Ltd.         | 32.50           | Jun                | 03 | 2,100                           |
| 150                               | TotalFinaElf ADR                | 60              | May                | 03 | (8,101)                         |
| 100                               | Weatherford International, Ltd. | 30              | May                | 03 | 12,599                          |
| 700                               |                                 |                 |                    |    | 52,346                          |
|                                   |                                 |                 |                    |    | \$ 55,619                       |

## CHANGES IN PORTFOLIO SECURITIES

During the Three Months Ended March 31, 2003

(unaudited)

|                    | Shares               |            |                        |
|--------------------|----------------------|------------|------------------------|
|                    | Additions            | Reductions | Held<br>March 31, 2003 |
| Albemarle Corp.    | 10,000               |            | 200,000                |
| Apache Corp.       | 7,000 <sup>(1)</sup> | 14,000     | 147,000                |
| Arch Coal Inc.     | 30,000               |            | 240,000                |
| Baker Hughes, Inc. | 20,000               |            | 130,000                |
| BP plc ADR         | 18,000               |            | 500,000                |

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|                         |        |        |         |
|-------------------------|--------|--------|---------|
| Ingersoll-Rand Co. Ltd. | 30,000 |        | 100,000 |
| TotalFinaElf ADR        | 15,000 |        | 140,000 |
| BJ Services Co.         |        | 20,000 | 380,000 |
| Nabors Industries Ltd.  |        | 20,000 | 180,000 |
| Ocean Energy, Inc.      |        | 70,000 | 480,000 |

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

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HISTORICAL FINANCIAL STATISTICS

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| <u>December 31</u>         | <u>Value of<br/>Net Assets</u> | <u>Shares<br/>Outstanding*</u> | <u>Net<br/>Asset<br/>Value per<br/>Share*</u> | <u>Dividends<br/>from<br/>Net Investment<br/>Income<br/>per Share*</u> | <u>Distributions<br/>from<br/>Net Realized<br/>Gains<br/>per Share*</u> |
|----------------------------|--------------------------------|--------------------------------|---|--|---|
| 1993                       | \$ 355,836,592                 | 18,010,007                     | \$ 19.76                                      | \$ .55   | \$ .87  |
| 1994                       | 332,279,398                    | 18,570,450                     | 17.89   | .61  | .79   |
| 1995                       | 401,404,971                    | 19,109,075                     | 21.01   | .58  | .81   |
| 1996                       | 484,588,990                    | 19,598,729                     | 24.73   | .55  | .88   |
| 1997                       | 556,452,549                    | 20,134,181                     | 27.64   | .51  | 1.04  |
| 1998                       | 474,821,118                    | 20,762,063                     | 22.87   | .52  | 1.01  |
| 1999                       | 565,075,001                    | 21,471,270                     | 26.32   | .48  | 1.07  |
| 2000                       | 688,172,867                    | 21,053,644                     | 32.69   | .39  | 1.35  |
| 2001                       | 526,491,798                    | 21,147,563                     | 24.90   | .43  | 1.07  |
| 2002                       | 451,275,463                    | 21,510,067                     | 20.98   | .43  | .68   |
| March 31, 2003 (unaudited) | 438,961,751                    | 21,460,567                     | 20.45   | .17  | .09   |

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

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**Common Stock**

Listed on the New York Stock Exchange

and the Pacific Exchange

**Petroleum & Resources Corporation**

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

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

*Website:* www.peteres.com

*E-mail:* contact@peteres.com

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

*Independent Accountants:* PricewaterhouseCoopers LLP

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

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



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 ANNUAL MEETING OF STOCKHOLDERS
 

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The Annual Meeting of Stockholders was held on March 25, 2003. For those nominated, the following votes were cast for directors:

|                           | votes for  | votes withheld |
|---------------------------|------------|----------------|
| (A) Enrique R. Arzac:     | 18,941,452 | 557,584        |
| (B) Daniel E. Emerson:    | 18,870,342 | 628,694        |
| (C) Edward J. Kelly, III: | 18,918,204 | 580,832        |
| (D) Thomas H. Lenagh:     | 18,804,943 | 694,093        |
| (E) W.D. MacCallan:       | 18,882,929 | 616,107        |
| (F) W. Perry Neff:        | 18,863,848 | 635,188        |
| (G) Douglas G. Ober:      | 18,933,169 | 565,867        |
| (H) Landon Peters:        | 18,907,928 | 591,108        |
| (I) John J. Roberts:      | 18,824,797 | 674,239        |
| (J) Susan C. Schwab:      | 18,902,859 | 596,177        |
| (K) Robert J.M. Wilson:   | 18,827,276 | 671,760        |

A proposal to approve and ratify the selection of PricewaterhouseCoopers LLP as the firm of independent accountants of the Corporation for 2003 was approved with 19,050,299 votes for, 235,528 votes against, and 213,209 votes abstaining.

A proposal to approve an amendment to the Corporation's Stock Option Plan to extend the term of the Plan for an additional three years was approved with 16,947,663 votes for, 2,106,442 votes against, and 444,931 votes abstaining.

A stockholder proposal to request the Board of Directors to consider placing performance limitations on when stock option grants may be awarded to the Corporation's investment personnel was defeated. Of the 11,257,492 shares that were voted on this proposal (abstentions are not included in this calculation), 3,356,791 shares (29.8%) were voted for, and 7,900,701 shares (70.2%) were voted against. 688,304 shares abstained. Of the total number of shares outstanding as of February 14, 2003, the record date for the meeting, 15.6 per cent were voted for the proposal.



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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.

**BuyDIRECT<sup>SM</sup>\***

BuyDIRECT is a direct purchase and sale plan, as well as a dividend reinvestment plan, sponsored and administered by our transfer agent, The Bank of New York. The Plan provides registered stockholders and interested first time investors an affordable alternative for buying, selling, and reinvesting in Petroleum & Resources shares.

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

|                    |         |
|--------------------|---------|
| Initial Enrollment | \$ 7.50 |
|--------------------|---------|

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

|  |  |
|--|--|
| <b>Optional Cash Investments</b>   |  |
| Service Fee  | \$2.50 per investment  |
| Brokerage Commission   | \$0.05 per share   |
| <b>Reinvestment of Dividends**</b>                                       |  |
| Service Fee  | 10% of amount invested<br>(maximum of \$2.50 per investment) |
| Brokerage Commission   | \$0.05 per share   |
| <b>Sale of Shares</b>  |  |
| Service Fee  | \$10.00  |
| Brokerage Commission   | \$0.05 per share   |
| Deposit of Certificates for safekeeping                                  | Included   |
| 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**

|  |              |
|--|--------------|
| 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 Buy*DIRECT* as well as an enrollment form may be obtained by contacting The Bank of New York.

**For Non-Registered Shareholders**

For shareholders whose stock is held by a broker in street name, The Bank of New York's Automatic Dividend Reinvestment Plan remains available through many registered investment security dealers. If your shares are currently held in a street name or brokerage account, please contact your broker for details about how you can participate in the Plan or contact The Bank of New York about the Buy*DIRECT* Plan.

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**The Corporation**

**Petroleum & Resources Corporation**

Lawrence L. Hooper, Jr.

Vice President, Secretary and General Counsel

Seven St. Paul Street, Suite 1140,

Baltimore, MD 21202

(800) 638-2479

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

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

**The Transfer Agent**

**The Bank of New York**

**Address Shareholder Inquiries to:**

Shareholder Relations Department

P.O. Box 11258 Church Street Station

New York, NY 10286

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(866) 723-8330

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

**E-mail:** [Shareowners@bankofny.com](mailto:Shareowners@bankofny.com)

***Send Certificates for Transfer***

***and Address Changes to:***

Receive and Deliver Department

P.O. Box 11002 Church Street Station

New York, NY 10286

\*Buy**DIRECT** is a service mark of The Bank of New York.

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