

PETROLEUM & RESOURCES CORP

Form N-30B-2

October 15, 2003

LETTER TO STOCKHOLDERS

We submit herewith the financial statements of the Corporation for the nine months ended September 30, 2003. In addition, there is a schedule of investments, along with other financial information.

Net assets of the Corporation at September 30, 2003 were \$22.26 per share on 21,286,667 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. 2003 investment income dividends of \$0.13 per share were paid on June 1, 2003 and September 1, 2003.

Net investment income for the nine months ended September 30, 2003 amounted to \$6,629,020, compared with \$7,261,163 for the same period in 2002. These earnings are equal to \$0.31 and \$0.34 per share on the average number of shares outstanding during each period.

Net capital gain realized on investments for the nine months ended September 30, 2003 amounted to \$12,429,429, the equivalent of \$0.58 per share.

Current and potential shareholders can find information about the Corporation, including the daily net asset value (NAV) per share, the market price, and the discount/premium to the NAV, at its site on the Internet. The address for the website is www.peteres.com. Also available at the website are a brief history of the Corporation, historical financial information, and more general industry material. Further information regarding shareholder services is located on page 12 of this report.

On November 1, 2003, the Corporation is changing its transfer agent to American Stock Transfer & Trust Company. Additional information about this change is contained in the Investor Express newsletter included with the mailing 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,

Douglas G. Ober,

Chairman, President and

Chief Executive Officer

October 17, 2003

STATEMENT OF ASSETS AND LIABILITIES

September 30, 2003

(unaudited)

Assets

Investments* at value:

Common stocks and convertible securities

(cost \$268,324,849)

\$ 403,492,671

Short-term investments (cost \$69,401,806)

69,401,806

Securities lending collateral (cost \$26,995,340)

26,995,340

\$ 499,889,817

Cash 332,467

Receivables:

Investment securities sold

721,020

Dividends and interest

552,279

Prepaid expenses and other assets

1,256,857

Total Assets 502,752,440
Liabilities

Investment securities purchased

566,765

Open written option contracts at value (proceeds \$172,541)

238,250

Obligations to return securities lending collateral

26,995,340

Accrued expenses

1,029,896

Total Liabilities 28,830,251

Net Assets \$ 473,922,189
Net Assets

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

21,286,667 shares

\$ 21,286,667

Additional capital surplus

303,480,460

Undistributed net investment income

1,698,519

Undistributed net realized gain on investments

12,354,430

Unrealized appreciation on investments

135,102,113

Net Assets Applicable to Common Stock \$ 473,922,189

Net Asset Value Per Share of Common Stock \$22.26

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

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

STATEMENT OF OPERATIONS

Nine Months Ended September 30, 2003

(unaudited)

Investment Income

Income:

Dividends	\$ 8,347,853
Interest and other income	665,822

<i>Total income</i>	9,013,675
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Expenses:

Investment research	976,451
Administration and operations	612,459
Directors' fees	153,500
Reports and stockholder communications	195,462
Transfer agent, registrar and custodian expenses	127,364
Auditing and accounting services	54,418
Legal services	25,757
Occupancy and other office expenses	119,326
Travel, telephone and postage	41,530
Other	78,388

<i>Total expenses</i>	2,384,655
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Net Investment Income	6,629,020
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Realized Gain and Change in Unrealized Appreciation on Investments

Net realized gain on security transactions	12,429,429
Change in unrealized appreciation on investments	16,321,506

Net Gain on Investments	28,750,935
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Change in Net Assets Resulting from Operations	\$ 35,379,955
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The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN NET ASSETS

	Nine Months Ended September 30, 2003	Year Ended December 31, 2002
	(unaudited)	
From Operations:		
Net investment income	\$ 6,629,020	\$ 8,983,077
Net realized gain on investments	12,429,429	14,332,921
Change in unrealized appreciation on investments	16,321,506	(82,017,470)
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<i>Change in net assets resulting from operations</i>	35,379,955	(58,701,472)
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Dividends to Stockholders from:		
Net investment income	(6,405,392)	(9,069,217)
Net realized gain from investment transactions	(1,934,492)	(14,302,830)
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<i>Decrease in net assets from distributions</i>	(8,339,884)	(23,372,047)
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From Capital Share Transactions:		
Value of shares issued in payment of distributions		9,954,365
Cost of shares purchased (Note 4)	(4,393,345)	(3,097,181)
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<i>Change in net assets from capital share transactions</i>	(4,393,345)	6,857,184
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Total Change in Net Assets	22,646,726	(75,216,335)
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Net Assets:		
Beginning of period	451,275,463	526,491,798
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End of period (including undistributed net investment income of \$1,698,519 and \$1,474,891, respectively)	\$ 473,922,189	\$ 451,275,463

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

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. SIGNIFICANT ACCOUNTING POLICIES

Petroleum & Resources Corporation (the Corporation) is registered under the Investment Company Act of 1940 as a non-diversified investment company. The Corporation'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 September 30, 2003 was \$364,930,422, and net unrealized appreciation aggregated \$135,131,936, of which the related gross unrealized appreciation and depreciation were \$162,764,124 and \$27,632,188, 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 nine months ended September 30, 2003 were \$23,608,437 and \$49,129,651, 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 September 30, 2003 can be found on page 10.

Transactions in written covered call and collateralized put options during the nine months ended September 30, 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	1,850	\$ 228,614	2,100	269,688
Options terminated in closing purchase transactions			(100)	(10,143)
Options expired	(1,535)	(177,753)	(1,366)	(186,853)
Options exercised	(165)	(19,345)	(184)	(22,287)
Options outstanding, September 30, 2003	775	\$ 89,744	750	\$ 82,797

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 on 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	
	Nine months ended September 30, 2003	Year ended December 31, 2002	Nine months ended September 30, 2003	Year ended December 31, 2002
Shares issued in payment of dividends		521,854	\$	\$ 9,954,365
Shares purchased (at a weighted average discount from net asset value of 8.2% and 8.9%, respectively)	(223,400)	(159,350)	(4,393,345)	(3,097,181)
Net change	(223,400)	362,504	\$ (4,393,345)	\$ 6,857,184

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The cost of the 238,300 shares of Common Stock held by the Corporation at September 30, 2003 and of the 14,900 shares of Common Stock held at December 31, 2002 amounted to \$4,678,562 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 \$18.07 per share. During the nine months ended September 30, 2003, the Corporation granted options including stock appreciation rights for 21,258 shares of Common Stock with an exercise price of \$19.29. During the nine months ended September 30, 2003, stock appreciation rights relating to 17,880 stock option shares were exercised at a weighted average market price of \$20.24 per share and the stock options relating to these rights with a weighted average exercise price of \$10.21 per share were cancelled. Stock options and stock appreciation rights relating to 25,943 shares, with a weighted average exercise price of \$19.46, were cancelled. At September 30, 2003, there were outstanding exercisable options to purchase 38,866 common shares at \$9.03-\$25.25 per share (weighted average price of \$18.77) and unexercisable options to purchase 90,581 common shares at \$11.64-\$25.25 per share (weighted average price of \$19.03). The weighted average remaining contractual life of outstanding exercisable and unexercisable options was 5.42 years and 6.43 years, respectively. The total compensation expense for stock options and stock appreciation rights recognized for the nine months ended September 30, 2003 was \$135,924. At September 30, 2003, there were 279,614 shares available for future option grants.

5. RETIREMENT PLANS

The Corporation provides retirement benefits for its employees under a non-contributory qualified defined benefit pension plan. The benefits are based on years of service and compensation during the last five years of employment. The Corporation's current funding policy is to contribute annually to the plan only those amounts that can be deducted for federal income tax purposes. As of September 30, 2003, the plan assets, consisting primarily of investments in individual stocks, bonds and mutual funds were \$3,093,115. 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 September 30, 2003 was \$3,707,291. Prepaid pension cost included in other assets at September 30, 2003 was \$834,964.

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 September 30, 2003 for employees and former employees of the Corporation was \$954,438. Aggregate remuneration paid or accrued during the nine months ended September 30, 2003 to key employees and directors amounted to

\$803,185.

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 September 30, 2003, the Corporation had securities on loan of \$26,149,715 and held collateral of \$26,995,340, consisting of repurchase agreements.

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FINANCIAL HIGHLIGHTS

	Nine Months Ended		Year Ended December 31				
	(unaudited)						
	Sept. 30, 2003	Sept. 30, 2002	2002	2001	2000	1999	1998
Per Share Operating Performance*							
Net asset value, beginning of period	\$20.98	\$24.90	\$24.90	\$32.69	\$26.32	\$22.87	\$27.64
Net investment income	0.31	0.34	0.42	0.49	0.37	0.48	0.55
Net realized gains and change in unrealized appreciation	1.34	(4.30)	(3.20)	(6.81)	7.67	4.67	(3.73)
Total from investment operations	1.65	(3.96)	(2.78)	(6.32)	8.04	5.15	(3.18)
Less distributions							
Dividends from net investment income	(0.30)	(0.30)	(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	(0.39)	(0.39)	(1.11)	(1.50)	(1.74)	(1.55)	(1.53)
Capital share repurchases	0.02		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	0.02		(0.03)	0.03	0.07	(0.15)	(0.06)
Net asset value, end of period	\$22.26	\$20.55	\$20.98	\$24.90	\$32.69	\$26.32	\$22.87
Per share market price, end of period	\$21.30	\$19.05	\$19.18	\$23.46	\$27.31	\$21.50	\$20.42
Total Investment Return							