

## LETTER TO STOCKHOLDERS

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We submit herewith the audited financial statements of the Corporation for the six months ended June 30, 2005. In addition, there is the report of the independent registered public accounting firm, a schedule of investments, along with other financial information.

Net assets of the Corporation at June 30, 2005 were \$32.59 per share on 21,642,506 shares outstanding, compared with \$28.16 per share at December 31, 2004 on 21,979,676 shares outstanding. On March 1, 2005, a distribution of \$0.13 per share was paid, consisting of \$0.06 from 2004 long-term capital gain, \$0.02 from 2004 short-term capital gain, \$0.03 from 2004 investment income and \$0.02 from 2005 investment income, all taxable in 2005. A 2005 investment income dividend of \$0.13 per share was paid on June 1, 2005 and another \$0.13 investment income dividend has been declared to shareholders of record August 16, 2005, payable on September 1, 2005.

Net investment income for the six months ended June 30, 2005 amounted to \$4,338,847, compared with \$4,645,489 for the same period in 2004. These earnings are equal to \$0.20 and \$0.21 per share on the average number of shares outstanding during each period.

Net capital gain realized on investments for the six months ended June 30, 2005 amounted to \$10,320,850, the equivalent of \$0.48 per share.

The Annual Meeting, held on April 27, 2005 in Baltimore, was well attended. The results of the voting at the Annual Meeting are shown on page 17.

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

information. Further information regarding shareholder services is located on page 18 of this report.

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Mr. W. Perry Neff retired from the Board of Directors in April 2005. Mr. Neff was elected to the board in 1971 when he was Executive Vice President and Senior Operating Officer of Chemical Bank. Over the years, he has generously shared with us his extensive financial knowledge and wisdom. We wish him well in his retirement and thank him for his thirty-four years of distinguished service as a director.

We are pleased to announce effective April 27, 2005, the Board of Directors elected Ms. Nancy J.F. Prue to Vice President of the Corporation. Ms. Prue had been the Vice President-Research with the Corporation since 1986 and a research analyst since 1982.

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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*

July 20, 2005

**STATEMENT OF ASSETS AND LIABILITIES**

*June 30, 2005*

**Assets**

Investments\* at value:

Common stocks and convertible securities (cost \$298,867,068)	\$661,561,765	
Short-term investments (cost \$42,530,767)	42,530,767	\$704,092,532
<hr/>		
Cash		286,592
Receivables:		
Investment securities sold		1,170,453
Dividends and interest		605,833
Prepaid pension cost		1,215,666
Prepaid expenses and other assets		463,605
<hr/>		
<i>Total Assets</i>		707,834,681

**Liabilities**

Investment securities purchased		367,530
Open written option contracts at value (proceeds \$320,623)		330,251
Accrued expenses		1,911,921
<hr/>		
<i>Total Liabilities</i>		2,609,702

**Net Assets**

\$705,224,979

**Net Assets**

Common Stock at par value \$1.00 per share, authorized 50,000,000 shares; issued and outstanding 21,642,506 shares (includes 4,630 restricted shares and restricted stock units for 3,600 shares) (Note 6)	\$ 21,642,506
Additional capital surplus	309,623,767
Undistributed net investment income	950,145
Undistributed net realized gain on investments	10,323,492
Unrealized appreciation on investments	362,685,069
<hr/>	
<b>Net Assets Applicable to Common Stock</b>	<b>\$705,224,979</b>
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<b>Net Asset Value Per Share of Common Stock</b>	<b>\$32.59</b>

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

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

S T A T E M E N T   O F   O P E R A T I O N S

*Six Months Ended June 30, 2005*

**Investment Income**

Income:		
Dividends		\$ 5,704,049
Interest and other income		650,004
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<i>Total Income</i>		6,354,053
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Expenses:		
Investment research		906,225
Administration and operations		502,111
Directors' fees		150,169
Reports and stockholder communications		88,703
Transfer agent, registrar and custodian expenses		65,135
Auditing and accounting services		42,288
Legal services		59,982
Occupancy and other office expenses		118,781
Travel, telephone and postage		36,126
Other		45,686
<hr/>		
<i>Total Expenses</i>		2,015,206
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<b>Net Investment Income</b>		4,338,847
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<b>Realized Gain and Change in Unrealized Appreciation on Investments</b>		
Net realized gain on security transactions		10,320,850
Change in unrealized appreciation on investments		87,262,178
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<b>Net Gain on Investments</b>		97,583,028
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<b>Change in Net Assets Resulting from Operations</b>		<b>\$101,921,875</b>

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

S T A T E M E N T S   O F   C H A N G E S   I N   N E T   A S S E T S

	Six Months Ended June 30, 2005	Year Ended December 31, 2004
<b>From Operations:</b>		
Net investment income	\$ 4,338,847	\$ 8,924,453
Net realized gain on investments	10,320,850	18,979,327
Change in unrealized appreciation on investments	87,262,178	90,350,341
<i>Change in net assets resulting from operations</i>	101,921,875	118,254,121
<b>Distributions to Stockholders from:</b>		
Net investment income	(3,927,869)	(9,536,803)
Net realized gain from investment transactions	(1,756,892)	(19,037,472)
<i>Decrease in net assets from distributions</i>	(5,684,761)	(28,574,275)
<b>From Capital Share Transactions:</b>		
Value of shares issued in payment of distributions	—	9,629,174
Cost of shares purchased (Note 4)	(9,923,590)	(3,362,898)
Deferred compensation (Notes 4,6)	24,054	—
<i>Change in net assets from capital share transactions</i>	(9,899,536)	6,266,276
<b>Total Increase in Net Assets</b>	<b>86,337,578</b>	<b>95,946,122</b>
<b>Net Assets:</b>		
Beginning of period	618,887,401	522,941,279
End of period (including undistributed net investment income of \$950,145 and \$746,047, respectively)	\$705,224,979	\$618,887,401

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

**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, 2005 was \$341,368,012, and net unrealized appreciation aggregated \$362,724,520, of which the related gross unrealized appreciation and depreciation were \$367,793,174 and \$5,068,654, 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, 2005 were \$38,847,355 and \$45,567,142, respectively. Options may be written (sold) or purchased by the Corporation. The Corporation, as writer of an option, bears the risk 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, 2005 can be found on page 12.

Transactions in written covered call and collateralized put options during the six months ended June 30, 2005 were as follows:

	Covered Calls		Collateralized Puts	
	Contracts	Premiums	Contracts	Premiums
Options outstanding, December 31, 2004	1,550	\$ 204,167	1,470	\$ 167,283
Options written	4,240	429,506	2,850	259,845
Options terminated in closing purchase transactions	(910)	(73,079)	—	—
Options expired	(650)	(80,987)	(3,160)	(310,757)
Options exercised	(2,330)	(275,355)	—	—
Options outstanding, June 30, 2005	1,900	\$ 204,252	1,160	\$ 116,371

**4. CAPITAL STOCK**

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

On December 27, 2004, the Corporation issued 380,149 shares of its Common Stock at a price of \$25.33 per share (the average market price on December 13, 2004) to stockholders of record on November 23, 2004 who elected to take stock in payment of the year-end distribution from 2004 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 2005 and 2004 were as follows:

	Shares		Amount	
	Six months ended June 30, 2005	Year ended December 31, 2004	Six months ended June 30, 2005	Year ended December 31, 2004
Shares issued in payment of dividends	—	380,149	\$ —	\$ 9,629,174
Shares purchased (at a weighted average discount from net asset value of 7.8% and 8.0%, respectively)	(345,400)	(137,250)	(9,923,590)	(3,362,898)
Nonvested shares/units granted under the equity incentive compensation plan	8,230	—	24,054	—
Net change	(337,170)	242,899	\$(9,899,536)	\$ 6,266,276

#### 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, 2005, the Corporation contributed \$437,338 to the plans. The Corporation anticipates contributing additional amounts to the plans approximating \$23,338 during the remainder of 2005.

The following table aggregates the components of the plans' net periodic pension cost for the six months ended June 30, 2005.

Service Cost	\$ 92,584
Interest Cost	140,544
Expected return on plan assets	(138,746)
Amortization of prior service cost	27,457
Amortization of net loss	90,123
Net periodic pension cost	\$ 211,962

The Corporation also sponsors a defined contribution plan that covers substantially all employees. For the six months ended June 30, 2005, the Corporation expensed contributions of \$41,543. 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 their options and receive cash 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 ("2005 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, 2005, and changes during the period then ended is presented below:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
Outstanding at January 1, 2005	128,543	\$18.81	
Exercised	(17,261)	15.93	
Forfeited	—	—	
Outstanding at June 30, 2005	111,282	\$19.17	5.45
Exercisable at June 30, 2005	50,108	\$19.02	5.16

The options outstanding as of June 30, 2005 are set forth below:

Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
\$14.00-\$16.49	21,317	\$14.44	1.52
\$16.50-\$18.99	34,303	17.53	0.78
\$19.00-\$21.49	23,921	20.83	4.17
\$21.50-\$24.00	31,741	22.87	3.14
Outstanding at June 30, 2005	111,282		

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, 2005 was \$470,783.

The 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. Restricted stock was granted to key employees on April 27, 2005 at fair market value on that date, vesting over a three year period. Restricted stock units were granted to non-employee directors on April 27, 2005 at fair market value on that date and vest over a one year period. The number of shares of Common Stock which remain available for future grants under the Plan at June 30, 2005 is 864,409 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 awards that are later forfeited are re-classified to compensation expense.

A summary of the status of the Corporations's awards granted as of June 30, 2005, and changes during the period then ended is presented below:

Awards	Shares/ Units	Grant-Date Fair Value
Balance at January 1, 2005	—	—
Granted:		
Restricted stock	4,630	\$28.06
Restricted stock units	3,600	28.06
Vested	—	—
Forfeited	—	—
Nonvested at June 30, 2005	8,230	\$28.06

Compensation costs resulting from restricted stock and restricted stock units granted under the 2005 Plan are recognized over the relevant service period based on the fair value of the awards granted. Any unearned compensation is

included in "Undistributed net investment income" and is subsequently expensed as services are rendered. The fair value of restricted shares is based on the average of the high and low market price on the date an award is granted. The total compensation costs for restricted stock granted to employees for the six months ended June 30, 2005 was \$7,218. The total compensation costs for restricted stock units granted to non-employee directors under the 2005 Plan for the six months ended June 30, 2005 was \$16,836. As of June 30, 2005, there was \$206,880 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the 2005 Plan. That cost is expected to be recognized over a weighted average period of 2.0 years.

## 7. EXPENSES

The aggregate remuneration paid or accrued during the six months ended June 30, 2005 to officers and directors amounted to \$907,946, of which \$150,169 was paid as fees to directors who were not officers.

## 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, 2005, the Corporation had no securities on loan.

**FINANCIAL HIGHLIGHTS**

	Six Months Ended		Year Ended December 31				
	June 30, 2005	June 30, 2004	2004	2003	2002	2001	2000
<b>Per Share Operating Performance</b>							
Net asset value, beginning of period	\$28.16	\$24.06	\$24.06	\$20.98	\$24.90	\$32.69	\$26.32
Net investment income	0.20	0.21	0.41	0.38	0.42	0.49	0.37
Net realized gains and increase (decrease) in unrealized appreciation	4.45	2.20	5.05	3.89	(3.20)	(6.81)	7.67
Total from investment operations	4.65	2.41	5.46	4.27	(2.78)	(6.32)	8.04
Less distributions							
Dividends from net investment income	(0.18)	(0.17)	(0.44)	(0.38)	(0.43)	(0.43)	(0.39)
Distributions from net realized gains	(0.08)	(0.09)	(0.88)	(0.81)	(0.68)	(1.07)	(1.35)
Total distributions	(0.26)	(0.26)	(1.32)	(1.19)	(1.11)	(1.50)	(1.74)
Capital share repurchases	0.04	0.01	0.01	0.02	0.01	0.06	0.28
Reinvestment of distributions	—	—	(0.05)	(0.02)	(0.04)	(0.03)	(0.21)
Total capital share transactions	0.04	0.01	(0.04)	0.00	(0.03)	0.03	0.07
Net asset value, end of period	\$32.59	\$26.22	\$28.16	\$24.06	\$20.98	\$24.90	\$32.69
Per share market price, end of period	\$29.95	\$23.81	\$25.78	\$23.74	\$19.18	\$23.46	\$27.31
<b>Total Investment Return</b>							
Based on market price	17.2%	1.4%	14.4%	30.8%	(13.7)%	(8.7)%	36.1%
Based on net asset value	16.8%	10.2%	23.3%	21.2%	(11.1)%	(19.0)%	33.1%
<b>Ratios/Supplemental Data</b>							
Net assets, end of period (in 000's)	\$705,225	\$568,508	\$618,887	\$522,941	\$451,275	\$526,492	\$688,173
Ratio of expenses to average net assets	0.61%†	0.50%†	0.56%	0.74%	0.49%	0.35%	0.59%
Ratio of net investment income to average net assets	1.30%†	1.73%†	1.58%	1.75%	1.84%	1.67%	1.24%
Portfolio turnover	12.61%†	13.31%†	13.44%	10.20%	9.69%	6.74%	7.68%
Number of shares outstanding at end of period (in 000's)	21,643	21,682	21,980	21,737	21,510	21,148	21,054

†Ratios presented on an annualized basis.

**SCHEDULE OF INVESTMENTS**

June 30, 2005

	Shares	Value (A)		Shares	Value (A)
<b>Stocks And Convertible Securities — 93.8%</b>					
<b>Energy — 83.8%</b>					
<i>Internationals — 25.2%</i>					
BP plc ADR	600,000	\$ 37,428,000			
Chevron Corp.	635,000	35,509,200			
Exxon Mobil Corp.	1,140,000	65,515,800			
Royal Dutch Petroleum Co. ADR	385,000	24,986,500			
Total S.A. ADR	120,000	14,022,000			
		177,461,500			
<i>Domestics — 10.5%</i>					
Amerada Hess Corp.	75,000	7,988,250			
ConocoPhillips	560,000	32,194,400			
Holly Corp.	225,000	10,500,750			
Kerr-McGee Corp.	117,647	8,977,642			
Murphy Oil Corp.	276,400	14,436,372			
		74,097,414			
<i>Producers — 18.3%</i>					
Apache Corp.	177,000	11,434,200			
Burlington Resources Inc.	246,800	13,633,232			
Devon Energy Corp.	355,000	17,991,400			
EOG Resources, Inc.	360,000	20,448,000			
Newfield Exploration Co. (B)	170,000	6,781,300			
Noble Energy, Inc.	215,000	16,264,750			
Occidental Petroleum Corp.	200,000	15,386,000			
Pioneer Natural Resources Co.	291,000	12,245,280			
XTO Energy Inc.	428,333	14,559,038			
		128,743,200			
<i>Distributors — 13.6%</i>					
AGL Resources Inc.	250,000	9,662,500			
Duke Energy Corp.	217,624	6,469,962			
Energen Corp.	400,000	14,020,000			
Equitable Resources Inc.	225,000	15,300,000			
Keyspan Corp.	70,000	2,849,000			
MDU Resources Group, Inc.	250,000	7,042,500			
National Fuel Gas Co.	200,000	5,782,000			
New Jersey Resources Corp.	277,500	13,389,375			
Questar Corp.	200,000	13,180,000			
Williams Companies, Inc.	450,000	8,550,000			
		96,245,337			
<b>Services — 16.2%</b>					
Baker Hughes, Inc.	130,000	\$ 6,650,800			
BJ Services Co.	370,000	19,417,600			
GlobalSantaFe Corp.	290,000	11,832,000			
Grant Prideco Inc. (B)	308,000	8,146,600			
Nabors Industries Ltd. (B)	260,000	15,761,200			
Noble Corp. (B)	185,000	11,379,350			
Precision Drilling Corp. (B)	200,000	7,896,000			
Schlumberger Ltd.	280,000	21,263,200			
Weatherford International, Ltd. (B)	205,000	11,885,900			
					114,232,650
<b>Basic Industries — 10.0%</b>					
<i>Basic Materials &amp; Other — 9.6%</i>					
Air Products and Chemicals, Inc.	125,000	7,537,500			
Aqua America, Inc.	315,000	9,368,100			
Arch Coal Inc.	90,000	4,902,300			
Consol Energy Inc.	158,700	8,503,146			
du Pont (E.I.) de Nemours and Co.	175,000	7,526,750			
General Electric Co.	454,800	15,758,820			
Martin Marietta Materials, Inc.	70,400	4,866,048			
Rohm & Haas Co.	200,000	9,268,000			
					67,730,664
<i>Paper &amp; Forest Products — 0.4%</i>					
Smurfit-Stone Container Corp. (B)	300,000	3,051,000			
					3,051,000
<b>Total Stocks And Convertible Securities</b>					\$661,561,765
(Cost \$298,867,068) (C)					

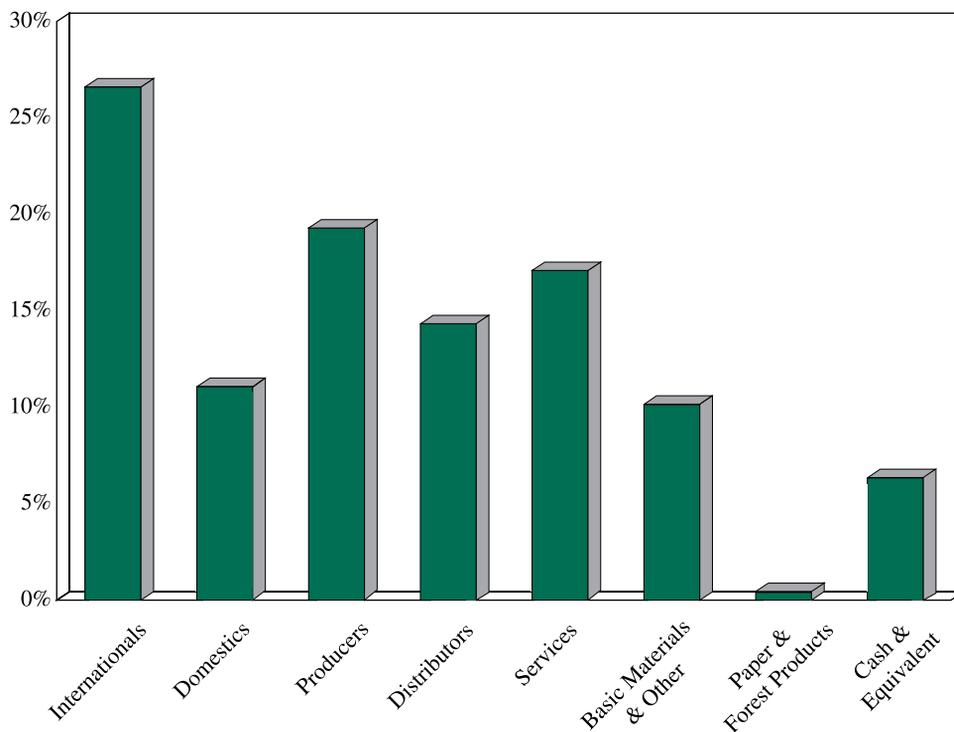


**PORTFOLIO SUMMARY**

**TEN LARGEST PORTFOLIO HOLDINGS (6/30/05)**

	<i>Market Value</i>	<i>% of Net Assets</i>
Exxon Mobil Corp.	\$ 65,515,800	9.3
BP plc ADR	37,428,000	5.3
Chevron Corp.	35,509,200	5.0
ConocoPhillips	32,194,400	4.6
Royal Dutch Petroleum Co. ADR	24,986,500	3.5
Schlumberger Ltd.	21,263,200	3.0
EOG Resources, Inc.	20,448,000	2.9
BJ Services Co.	19,417,600	2.8
Devon Energy Corp.	17,991,400	2.6
Noble Energy, Inc.	16,264,750	2.3
Total	<u>\$291,018,850</u>	<u>41.3%</u>

**SECTOR WEIGHTINGS (6/30/05)**



**SCHEDULE OF OUTSTANDING OPTION CONTRACTS**

*June 30, 2005*

Contracts (100 shares each)	Security	Strike Price	Contract Expiration Date	Appreciation/ (Depreciation)
<b>COVERED CALLS</b>				
100	Air Products & Chemicals, Inc. ....	\$ 65	Sep 05	\$ 2,700
100	Amerada Hess Corp. ....	110	Aug 05	(18,301)
200	Chevron Corp. ....	65	Sep 05	14,399
400	ConocoPhillips ....	65	Aug 05	3,499
100	Kerr-McGee Corp. ....	75	Jul 05	(6,301)
100	Kerr-McGee Corp. ....	80	Oct 05	(4,801)
200	Kerr-McGee Corp. ....	95	Oct 05	26,958
200	Martin Marietta Materials, Inc. ....	70	Oct 05	(33,601)
200	Murphy Oil Corp. ....	50	Jul 05	(46,300)
200	Murphy Oil Corp. ....	60	Oct 05	(12,300)
<u>100</u>	Total S.A. ADR ....	135	Aug 05	<u>8,800</u>
<u>1,900</u>				<u>(65,248)</u>
<b>COLLATERALIZED PUTS</b>				
250	Exxon Mobil Corp. ....	55	Jul 05	15,499
200	Exxon Mobil Corp. ....	50	Oct 05	13,399
60	Holly Corp ....	30	Sep 05	3,120
100	Martin Marietta Materials, Inc. ....	45	Jul 05	9,977
300	Murphy Oil Corp. ....	35	Jul 05	15,626
<u>250</u>	Newfield Exploration Co. ....	37.50	Sep 05	<u>(2,001)</u>
<u>1,160</u>				<u>55,620</u>
				<u>\$ (9,628)</u>

**C H A N G E S   I N   P O R T F O L I O   S E C U R I T I E S**

*During the Three Months Ended June 30, 2005  
(unaudited)*

	Shares		Held June 30, 2005
	Additions	Reductions	
ConocoPhillips . . . . .	280,000 <sup>(1)</sup>		560,000
Energen Corp. . . . .	200,000 <sup>(1)</sup>		400,000
Exxon Mobil Corp. . . . .	20,000		1,140,000
GlobalSantaFe Corp. . . . .	35,000		290,000
Holly Corp. . . . .	109,900	40,000	225,000
Murphy Oil Corp. . . . .	168,200 <sup>(1)</sup>	74,500	276,400
Nabors Industries Ltd. . . . .	45,000		260,000
Newfield Exploration Co. . . . .	170,000		170,000
Precision Drilling Corp. . . . .	168,000 <sup>(2)</sup>		200,000
XTO Energy Inc. . . . .	95,000		428,333
Amerada Hess Corp. . . . .		10,000	75,000
Apache Corp. . . . .		13,000	177,000
Arch Coal Inc. . . . .		10,000	90,000
Devon Energy Corp. . . . .		42,440	355,000
Kerr-McGee Corp. . . . .		59,506	117,647

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

<sup>(2)</sup> Received 100,000 shares by stock split.

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

**H I S T O R I C A L F I N A N C I A L S T A T I S T I C S**

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<u>December 31</u>	<u>Value of Net Assets</u>	<u>Shares Outstanding*</u>	<u>Net Asset Value per Share*</u>	<u>Dividends from Net Investment Income per Share*</u>	<u>Distributions from Net Realized Gains per Share*</u>
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
2003 .....	522,941,279	21,736,777	24.06	.38	.81
2004 .....	618,887,401	21,979,676	28.16	.44	.88
June 30, 2005 .....	705,224,979	21,642,506	32.59	.31†	.08†

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

† Paid or declared.

**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, 2005, 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, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

**PricewaterhouseCoopers LLP**  
Baltimore, Maryland  
July 13, 2005

**STATEMENT ON QUARTERLY FILING  
OF COMPLETE PORTFOLIO SCHEDULE**

In addition to publishing its complete schedule of portfolio holdings in the First and Third Quarter Reports to 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, 2005 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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**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.

The Annual Meeting of Stockholders was held on April 27, 2005. For those nominated, the following votes were cast for directors:

	<u>votes for</u>	<u>votes withheld</u>
(A) Enrique R. Arzac:	19,479,876	433,177
(B) Phyllis O. Bonanno:	19,467,618	445,435
(C) Daniel E. Emerson:	19,394,949	518,104
(D) Thomas H. Lenagh:	19,364,541	548,512
(E) W.D. MacCallan:	19,437,106	475,947
(F) Kathleen T. McGahran:	19,474,596	438,457
(G) Douglas G. Ober:	19,504,516	408,537
(H) John J. Roberts:	19,358,564	554,489
(I) Susan C. Schwab:	19,463,763	449,290
(J) Robert J.M. Wilson:	19,381,966	531,087

A proposal to approve and ratify the selection of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Corporation for 2005 was approved with 19,524,683 votes for, 228,511 votes against, and 159,859 shares abstaining.

A proposal to approve the adoption of the Petroleum & Resources Corporation 2005 Equity Incentive Compensation Plan was approved with 9,537,628 votes for, 1,691,906 votes against, 552,864 shares abstaining, and 8,130,655 shares unvoted.

## DIVIDEND PAYMENT SCHEDULE

The Corporation presently pays dividends four times a year, as follows: (a) three interim distributions on or about March 1, June 1, and September 1 and (b) a “year-end” distribution, payable in late December, consisting of the estimated balance of the net investment income for the year and the net realized capital gain earned through October 31. Stockholders may elect to receive the year-end distribution in stock or cash. In connection with this distribution, all **stockholders of record** are sent a dividend announcement notice and an election card in mid-November.

**Stockholders holding shares in “street” or brokerage accounts may make their elections by notifying their brokerage house representative.**

## INVESTORS CHOICE

INVESTORS CHOICE is a direct stock purchase and sale plan, as well as a dividend reinvestment plan, sponsored and administered by our transfer agent, American Stock Transfer & Trust Company (AST). The plan provides registered stockholders and interested first time investors an affordable alternative for buying, selling, and reinvesting in Petroleum & Resources shares.

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

Initial Enrollment and	
Optional Cash Investments	
Service Fee	\$2.50 per investment
Brokerage Commission	\$0.05 per share
Reinvestment of Dividends**	
Service Fee	2% of amount invested (maximum of \$2.50 per investment)
Brokerage Commission	\$0.05 per share
Sale of Shares	
Service Fee	\$10.00
Brokerage Commission	\$0.05 per share
Deposit of Certificates for safekeeping	\$7.50
Book to Book Transfers	Included
<i>To transfer shares to another participant or to a new participant</i>	

***Fees are subject to change at any time.***

## Minimum and Maximum Cash Investments

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

**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

**Website:** [www.InvestPower.com](http://www.InvestPower.com)  
**E-mail:** [info@InvestPower.com](mailto:info@InvestPower.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.



# PETROLEUM & RESOURCES CORPORATION

## Board of Directors

Enrique R. Arzac <sup>1,3</sup>	Kathleen T. McGahran <sup>2,4</sup>
Phyllis O. Bonanno <sup>1,3</sup>	Douglas G. Ober <sup>1</sup>
Daniel E. Emerson <sup>3,4</sup>	John J. Roberts <sup>1,4</sup>
Thomas H. Lenagh <sup>1,4</sup>	Susan C. Schwab <sup>2,4</sup>
W.D. MacCallan <sup>2,3</sup>	Robert J.M. Wilson <sup>1,2</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	<i>Chairman, President and Chief Executive Officer</i>
Joseph M. Truta	<i>Executive Vice President</i>
Lawrence L. Hooper, Jr.	<i>Vice President, General Counsel and Secretary</i>
Maureen A. Jones	<i>Vice President, Chief Financial Officer and Treasurer</i>
Nancy J.F. Prue	<i>Vice President</i>
Christine M. Sloan	<i>Assistant Treasurer</i>
Geraldine H. Paré	<i>Assistant Secretary</i>

## Stock Data

Market Price (6/30/05)	\$29.95
Net Asset Value (6/30/05)	\$32.59
Discount:	8.1%

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

## Distributions in 2005

From Investment Income (paid or declared)	\$0.31
From Net Realized Gains	0.08
Total	<u>\$0.39</u>

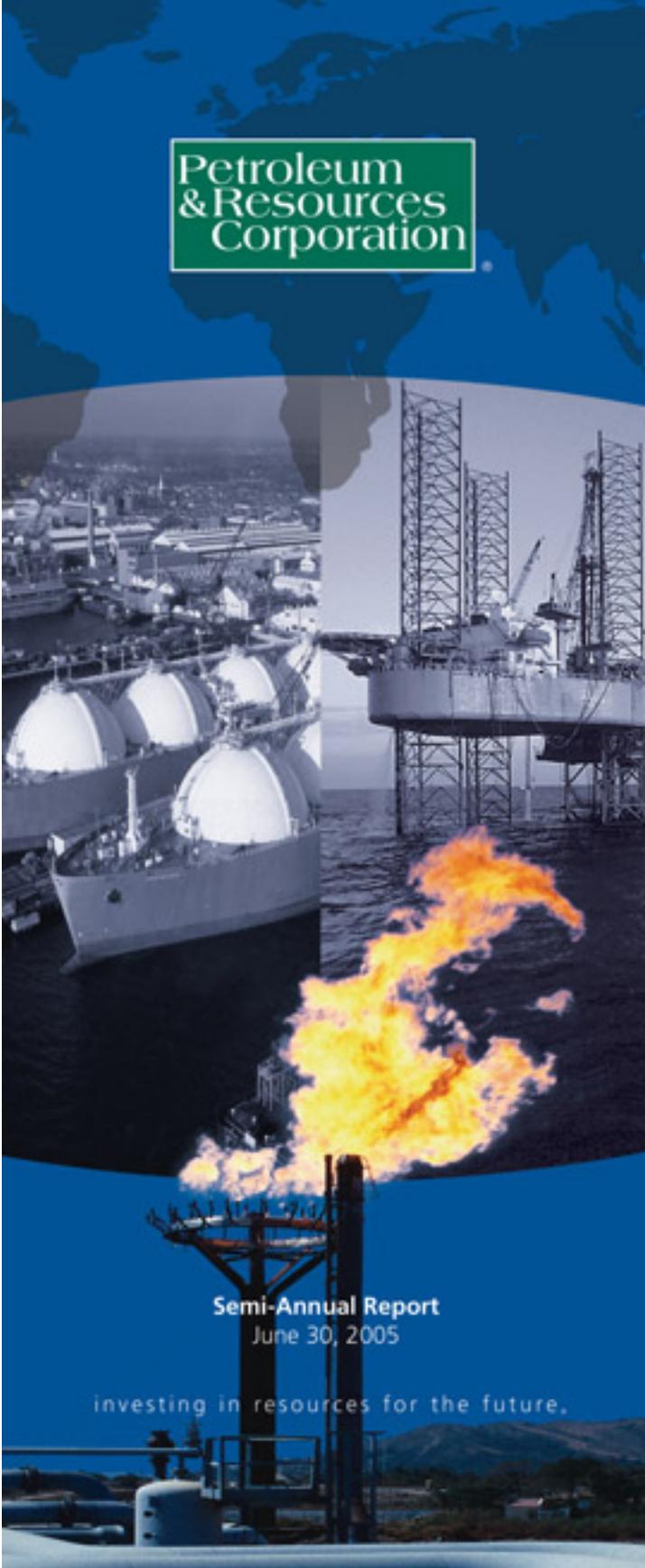
## 2005 Dividend Payment Dates

March 1, 2005  
June 1, 2005  
September 1, 2005  
December 27, 2005\*

\*Anticipated



Petroleum  
& Resources  
Corporation



Semi-Annual Report  
June 30, 2005

investing in resources for the future.