

We submit herewith the financial statements of the Petroleum & Resources Corporation (the Corporation) for the six months ended June 30, 2007. In addition, there are the report of the independent registered public accounting firm, a schedule of investments, and other financial information.

Net assets of the Corporation at June 30, 2007 were \$42.86 per share on 21,877,275 shares outstanding, compared with \$36.61 per share at December 31, 2006 on 22,180,867 shares outstanding. On March 1, 2007, a distribution of \$0.13 per share was paid, consisting of \$0.07 from 2006 long-term capital gain, \$0.03 from 2006 short-term capital gain and \$0.03 from 2006 investment income, all taxable in 2007. A 2007 investment income dividend of \$0.13 per share was paid on June 1, 2007, and another \$0.13 investment income dividend has been declared to shareholders of record August 14, 2007, payable September 1, 2007.

Net investment income for the six months ended June 30, 2007 amounted to \$4,576,717, compared with \$5,219,727 for the same period in 2006. These earnings are equal to \$0.21 and \$0.25 per share.

Net capital gain realized on investments for the six months ended June 30, 2007 amounted to \$54,762,148, or \$2.50 per share.

The total return on net asset value (with dividends and capital gains reinvested) of shares of the Corporation was 17.9% for the six months ended June 30, 2007. The total return on the market value of the Corporation's shares in the period was 16.3%. These compare to a 17.4% gain for the Dow Jones Oil and Gas Index and a 7.0% total return for the Standard & Poor's 500 Composite Stock Index over the same time period.

For the twelve months ended June 30, 2007, the Corporation's total return on net asset value was 22.6% and on market value was 26.5%, as the discount narrowed during the period. Comparable figures for the Dow Jones Oil & Gas Index and the S&P 500 were 26.0% and 20.6%, respectively.

In June 2007, the Board of Directors of the Corporation adopted Amended and Restated Bylaws for the Corporation. Further information may be found on page 16 of this report.

Current and potential stockholders can find information about the Corporation, including the daily net asset value (NAV) per share, the market price, and the discount/premium to the NAV, on our website at www.peteres.com. Also available on the website are a brief history of the Corporation, historical financial information, and other useful content. Further information regarding stockholder services is located on page 18 of this report.

By order of the Board of Directors,



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

July 13, 2007

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2007

Assets

Investments* at value:

Common stocks and convertible securities (cost \$312,710,833)	\$858,066,591	
Short-term investments (cost \$77,861,832)	77,861,832	
Securities lending collateral (cost \$40,462,282)	40,462,282	\$976,390,705
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Cash		289,870
Receivables:		
Investment securities sold		5,608,098
Dividends and interest		724,469
Prepaid expenses and other assets		573,846
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<i>Total Assets</i>		983,586,988

Liabilities

Investment securities purchased	1,237,244
Open written option contracts at value (proceeds \$243,173)	764,850
Obligations to return securities lending collateral	40,462,282
Accrued expenses	3,447,034
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<i>Total Liabilities</i>	45,911,410
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Net Assets	\$937,675,578

Net Assets

Common Stock at par value \$0.001 per share, authorized 50,000,000 shares; issued and outstanding 21,877,275 shares (includes 24,724 restricted shares, 3,200 restricted stock units, and 1,695 deferred stock units) (Note 6)	\$ 21,877
Additional capital surplus	338,954,641
Accumulated other comprehensive income (Note 5)	(1,866,206)
Undistributed net investment income	1,066,498
Undistributed net realized gain on investments	54,664,687
Unrealized appreciation on investments	544,834,081
<hr/>	
Net Assets Applicable to Common Stock	\$937,675,578
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Net Asset Value Per Share of Common Stock	\$42.86

* 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, 2007

Investment Income

Income:	
Dividends	\$ 5,969,262
Interest and other income	1,240,325
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<i>Total income</i>	7,209,587
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Expenses:	
Investment research	1,189,466
Administration and operations	683,408
Directors' fees	187,809
Reports and stockholder communications	129,631
Transfer agent, registrar and custodian expenses	84,166
Auditing and accounting services	46,082
Legal services	37,908
Occupancy and other office expenses	145,245
Travel, telephone and postage	43,262
Other	85,893
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<i>Total expenses</i>	2,632,870
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Net Investment Income	4,576,717
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Realized Gain and Change in Unrealized Appreciation on Investments	
Net realized gain on security transactions	54,762,148
Change in unrealized appreciation on investments	82,436,062
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Net Gain on Investments	137,198,210
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Change in Net Assets Resulting from Operations	\$141,774,927

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, 2007	Year Ended December 31, 2006
From Operations:		
Net investment income	\$ 4,576,717	\$ 9,844,108
Net realized gain on investments	54,762,148	69,700,053
Change in unrealized appreciation on investments	82,436,062	33,586,674
Change in accumulated other comprehensive income (Note 5)	100,769	(1,966,975)
<i>Change in net assets resulting from operations</i>	141,875,696	111,163,860
Distributions to Stockholders from:		
Net investment income	(3,510,219)	(9,928,393)
Net realized gain from investment transactions	(2,217,601)	(69,654,826)
<i>Decrease in net assets from distributions</i>	(5,727,820)	(79,583,219)
From Capital Share Transactions:		
Value of shares issued in payment of distributions	8,014	46,212,047
Cost of shares purchased (Note 4)	(10,785,958)	(28,033,719)
Deferred compensation (Notes 4,6)	258,407	374,618
<i>Change in net assets from capital share transactions</i>	(10,519,537)	18,552,946
Total Increase in Net Assets	125,628,339	50,133,587
Net Assets:		
Beginning of period	812,047,239	761,913,652
End of period (including undistributed net investment income of \$1,066,498 and \$0, respectively)	\$937,675,578	\$812,047,239

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

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

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

2. FEDERAL INCOME TAXES

The Corporation's policy is to distribute all of its taxable income to its stockholders in compliance with the requirements of the Internal Revenue Code applicable to regulated investment companies. Therefore, no federal income tax provision is required. For federal income tax purposes, the identified cost of securities at June 30, 2007 was \$431,005,124 and net unrealized appreciation aggregated \$545,385,581, of which the related gross unrealized appreciation and depreciation were \$546,928,697 and \$1,543,116, 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. Any income tax-related interest or penalties would be classified as income tax expense.

Effective June 29, 2007, the Corporation adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, a clarification of FASB Statement No. 109, Accounting for Income Taxes. FIN 48 establishes financial reporting rules

regarding recognition and measurement of tax positions taken or expected to be taken on a tax return. The adoption of FIN 48 had no impact on the Corporation's net assets or results of operations.

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, 2007 were \$9,607,073 and \$75,086,311, respectively. Options may be written (sold) or purchased by the Corporation. The Corporation, as writer of an option, bears the risks of possible illiquidity of the option markets and from movements in security values. The risk associated with purchasing an option is limited to the premium originally paid. A schedule of outstanding option contracts as of June 30, 2007 can be found on page 12.

Transactions in written covered call and collateralized put options during the six months ended June 30, 2007 were as follows:

	Covered Calls		Collateralized Puts	
	Contracts	Premiums	Contracts	Premiums
Options outstanding, December 31, 2006	1,125	\$ 242,584	750	\$ 85,950
Options written	3,240	397,053	2,025	232,145
Options terminated in closing purchase transactions	(400)	(115,917)	(100)	(14,345)
Options expired	(1,425)	(212,339)	(1,725)	(198,377)
Options exercised	(1,100)	(173,581)	—	—
Options outstanding, June 30, 2007	1,440	\$ 137,800	950	\$ 105,373

4. CAPITAL STOCK

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

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

During 2007, the Corporation has issued 230 shares of its Common Stock at a weighted average price of \$33.47 per

share as dividend equivalents to holders of deferred stock units and restricted stock units under the 2005 Equity Incentive Compensation Plan.

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

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

	Shares		Amount	
	Six months ended June 30, 2007	Year ended December 31, 2006	Six months ended June 30, 2007	Year ended December 31, 2006
Shares issued in payment of dividends	230	1,370,051	\$ 8,014	\$ 46,212,047
Shares purchased (at a weighted average discount from net asset value of 9.8% and 10.1%, respectively)	(319,047)	(827,959)	(10,785,958)	(28,033,719)
Net activity under the Equity-Based Compensation Plans	15,225	17,703	258,407	374,618
Net change	(303,592)	559,795	\$(10,519,537)	\$ 18,552,946

5. RETIREMENT PLANS

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

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

The Corporation's policy is to contribute annually to the plans those amounts that can be deducted for federal income tax purposes, plus additional amounts as the Corporation deems appropriate in order to provide assets sufficient to meet benefits to be paid to plan participants. During the six months ended June 30, 2007, the Corporation contributed \$15,604 to the plans and expects to contribute an additional \$315,604 to the plans during the remainder of 2007.

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

	Six months ended June 30, 2007	Year ended December 31, 2006
Service Cost	\$ 174,176	\$ 334,876
Interest Cost	187,347	327,991
Expected return on plan assets	(184,376)	(343,422)
Amortization of prior service cost	18,859	37,717
Amortization of net loss	113,082	225,362
Deferred asset gain	—	31,224
Net periodic pension cost	\$ 309,088	\$ 613,748

The Corporation also sponsors a defined contribution plan that covers substantially all employees. For the six months ended June 30, 2007, the Corporation expensed contributions of \$52,684. The Corporation does not provide postretirement medical benefits.

6. EQUITY-BASED COMPENSATION

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

A summary of option activity under the 1985 Plan as of June 30, 2007, and changes during the six month period then ended is presented below:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
Outstanding at December 31, 2006	83,914	\$16.19	4.46
Exercised	(22,000)	15.60	—
Outstanding at June 30, 2007	61,914	\$15.49	3.99
Exercisable at June 30, 2007	23,224	\$15.11	2.72

The options outstanding as of June 30, 2007 are set forth below:

Exercise Price	Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
\$9.00-\$11.99	3,975	\$ 9.61	1.50
\$12.00-\$14.99	22,774	12.94	3.69
\$15.00-\$17.99	18,191	16.70	5.36
\$18.00-\$21.99	16,974	19.00	3.50
Outstanding at June 30, 2007	61,914	\$15.49	3.99

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, 2007 was \$394,627.

The 2005 Equity Incentive Compensation Plan ("2005 Plan"), adopted at the 2005 Annual Meeting, permits the grant of stock options, restricted stock awards and other stock incentives to key employees and all non-employee directors. The 2005 Plan provides for the issuance of up to 872,639 shares of the Corporation's Common Stock, including both performance and nonperformance-based restricted stock. Performance-based restricted stock awards vest at the end of a specified three year period, with the ultimate number of awards earned contingent on achievement of certain performance targets. If performance targets are not achieved, all or a portion of the performance-based awards are forfeited and become available for future grants. Nonperformance-based restricted stock awards vest ratably over a three year period and nonperformance-based restricted stock units (granted to non-employee directors) vest over a one year period. It is the current intention that employee grants will be performance-based. The 2005 Plan provides for accelerated vesting in the event of death or retirement. Non-employee directors also may elect to defer a portion of their cash compensation, with such deferred amount to be paid by delivery of deferred stock units. Outstanding awards are granted at fair market value on grant date. The number of shares of Common Stock which remain available for future grants under the 2005 Plan at June 30, 2007 is 831,063 shares.

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

A summary of the status of the Corporations's awards granted under the 2005 Plan as of June 30, 2007, and changes during the six month period then ended is presented below:

Awards	Shares/ Units	Weighted Average Grant-Date Fair Value
Balance at December 31, 2006	21,398	\$33.16
Granted:		
Restricted stock	10,983	31.34
Restricted stock units	3,200	34.70
Deferred stock units	406	33.04
Vested	(5,542)	31.78
Forfeited	(826)	34.32
Balance at June 30, 2007 (includes 23,182 performance-based awards and 6,437 nonperformance-based awards)	29,619	\$32.88

Compensation costs resulting from awards granted under the 2005 Plan are based on the fair value of the award on grant date (determined by the average of the high and low price on grant date) and recognized on a straight-line basis over the requisite service period. For those awards with performance conditions, compensation costs are based on the most probable outcome and, if such goals are not met, compensation cost is not recognized and any previously recognized compensation cost is reversed. The total compensation costs for restricted stock granted to employees for the period ended June 30, 2007 were \$136,750. The total compensation costs for restricted stock units granted to non-employee directors for the period ended June 30, 2007 were \$60,059. As of June 30, 2007, there were total unrecognized compensation costs of \$617,653, a component of additional capital surplus, related to nonvested equity-based compensation arrangements granted under the 2005 Plan. Those costs are expected to be recognized over a weighted average period of 1.83 years.

7. OFFICER AND DIRECTOR COMPENSATION

The aggregate remuneration paid during the six months ended June 30, 2007 to officers and directors amounted to \$1,615,711, of which \$190,991 was paid as fees and compensation to directors who were not officers. These amounts represent the taxable income to the Corporation's officers and directors and therefore differ from the amounts reported in the accompanying Statement of Operations that are recorded and expensed in accordance with generally accepted accounting principles.

8. PORTFOLIO SECURITIES LOANED

The Corporation makes loans of securities to brokers, secured by cash deposits, U.S. Government securities, or bank letters of credit. The Corporation accounts for securities lending transactions as secured financing and receives compensation in the form of fees or retains a portion of interest on the investment of any cash received as collateral. The Corporation also continues to receive interest or dividends on the securities loaned. The loans are secured at all times by collateral of at least 102% of the fair value of the securities loaned plus accrued interest. Gain or loss in the fair value of securities loaned that may occur during the term of the loan will be for the account of the Corporation. At June 30, 2007, the Corporation had securities on loan of \$39,970,359 and held collateral of \$40,462,282, consisting of an investment trust fund which may invest in money market instruments, commercial paper, repurchase agreements, U.S. Treasury Bills, and U.S. agency obligations.

FINANCIAL HIGHLIGHTS

	Six Months Ended		Year Ended December 31				
	June 30, 2007	June 30, 2006	2006	2005	2004	2003	2002
Per Share Operating Performance							
Net asset value, beginning of period	\$36.61	\$35.24	\$35.24	\$28.16	\$24.06	\$20.98	\$24.90
Net investment income	0.21	0.25	0.47	0.53*	0.41	0.38	0.42
Net realized gains and increase (decrease) in unrealized appreciation	6.25	3.62	4.91	8.29	5.05	3.89	(3.20)
Change in accumulated other comprehensive income (note 5)	—	—	(0.09)	—	—	—	—
Total from investment operations	6.46	3.87	5.29	8.82	5.46	4.27	(2.78)
Less distributions							
Dividends from net investment income	(0.16)	(0.16)	(0.47)	(0.56)	(0.44)	(0.38)	(0.43)
Distributions from net realized gains	(0.10)	(0.10)	(3.33)	(1.22)	(0.88)	(0.81)	(0.68)
Total distributions	(0.26)	(0.26)	(3.80)	(1.78)	(1.32)	(1.19)	(1.11)
Capital share repurchases	0.05	0.07	0.15	0.10	0.01	0.02	0.01
Reinvestment of distributions	—	—	(0.27)	(0.06)	(0.05)	(0.02)	(0.04)
Total capital share transactions	0.05	0.07	(0.12)	0.04	(0.04)	0.00	(0.03)
Net asset value, end of period	\$42.86	\$38.92	\$36.61	\$35.24	\$28.16	\$24.06	\$20.98
Per share market price, end of period	\$38.62	\$33.99	\$33.46	\$32.34	\$25.78	\$23.74	\$19.18
Total Investment Return							
Based on market price	16.3%	5.9%	15.3%	32.3%	14.4%	30.8%	(13.7)%
Based on net asset value	17.9%	11.3%	15.7%	32.0%	23.3%	21.2%	(11.1)%
Ratios/Supplemental Data							
Net assets, end of period (in 000's)	\$937,676	\$824,479	\$812,047	\$761,914	\$618,887	\$522,941	\$451,275
Ratio of expenses to average net assets	0.61%†	0.54%†	0.60%	0.59%	0.56%	0.74%	0.49%
Ratio of net investment income to average net assets	1.07%†	1.30%†	1.22%	1.61%	1.58%	1.75%	1.84%
Portfolio turnover	2.36%†	12.46%†	9.95%	10.15%	13.44%	10.20%	9.69%
Number of shares outstanding at end of period (in 000's)	21,877	21,184	22,181	21,621	21,980	21,737	21,510

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

† Ratios presented on an annualized basis.

SCHEDULE OF INVESTMENTS

June 30, 2007

	Shares	Value (A)		Shares	Value (A)
Stocks And Convertible Securities — 91.5%					
Energy — 85.2%					
Integrated — 34.3%					
Chevron Corp.	650,000	\$ 54,756,000		170,000	\$ 6,881,600
ConocoPhillips	556,891	43,715,944		217,624	3,982,519
Exxon Mobil Corp.	1,245,000	104,430,600		400,000	21,976,000
Hess Corp. (B)	195,000	11,497,200		450,000	22,302,000
Marathon Oil Co.	240,000	14,390,400		375,000	10,515,000
Murphy Oil Corp.	216,500	12,868,760		200,000	8,662,000
Royal Dutch Shell plc ADR	265,000	21,518,000		200,000	10,204,000
Suncor Energy	100,000	8,992,000		360,000	19,026,000
Total S.A. ADR	220,000	17,815,600		670,300	5,208,230
Valero Energy Corp.	425,000	31,390,500		108,812	2,824,760
		321,375,004		450,000	14,229,000
					125,811,109
Utilities — 13.4%					
AGL Resources Inc.					
Duke Energy Corp.					
Energen Corp.					
Equitable Resources Inc.					
MDU Resources Group, Inc.					
National Fuel Gas Co. (B)					
New Jersey Resources Corp.					
Questar Corp.					
SEMCO Energy, Inc.					
Spectra Energy Corp.					
Williams Companies, Inc.					
Exploration & Production — 15.4%					
Apache Corp.	158,200	12,907,538			
Devon Energy Corp.	330,000	25,835,700			
EOG Resources, Inc.	310,000	22,648,600			
Forest Oil Corp (B)(C)	37,000	1,563,620			
Newfield Exploration Co. (C)	175,000	7,971,250			
Noble Energy, Inc.	430,000	26,827,700			
Occidental Petroleum Corp.	400,000	23,152,000			
XTO Energy Inc.	390,000	23,439,000			
		144,345,408			
Basic Industries — 6.3%					
Basic Materials & Other — 6.3%					
Air Products and Chemicals, Inc.	115,000		115,000		9,242,550
Aqua America, Inc. (B)	281,000		281,000		6,319,690
du Pont (E.I.) de Nemours and Co.	157,500		157,500		8,007,300
Florida Rock Industries Inc.	105,000		105,000		7,087,500
General Electric Co.	454,800		454,800		17,409,744
Rohm & Haas Co.	200,000		200,000		10,936,000
					59,002,784
Total Stocks And Convertible Securities					
			(Cost \$312,710,833) (D)		\$858,066,591
Services — 22.1%					
Baker Hughes, Inc.	205,000	17,246,650			
BJ Services Co.	240,000	6,825,600			
Bronco Drilling Co., Inc. (B)(C)	240,000	3,938,400			
ENSCO International, Inc. (B)	209,150	12,760,242			
GlobalSantaFe Corp.	290,000	20,952,500			
Grant Prideco Inc. (C)	308,000	16,579,640			
Hercules Offshore, Inc. (B)(C)	250,000	8,095,000			
Nabors Industries Ltd. (C)	520,000	17,357,600			
Noble Corp.	200,000	19,504,000			
Schlumberger Ltd. (B)	560,000	47,566,400			
TODCO (C)	200,000	9,442,000			
Weatherford International, Ltd. (C)	493,560	27,264,254			
		207,532,286			

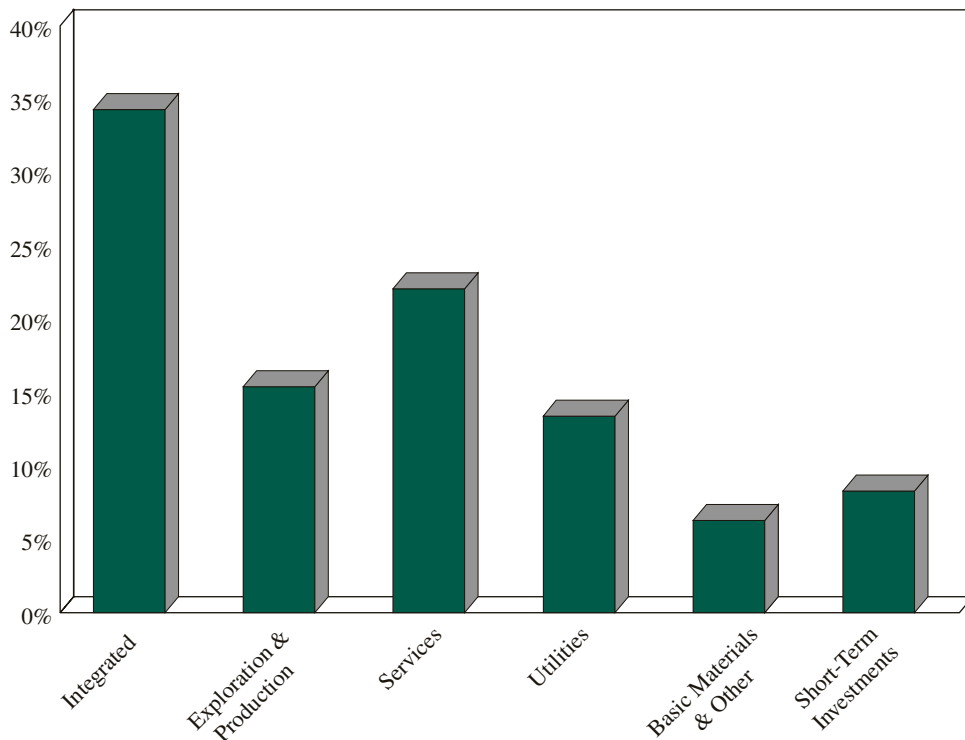
P O R T F O L I O S U M M A R Y

June 30, 2007
(unaudited)

TEN LARGEST PORTFOLIO HOLDINGS

	<i>Market Value</i>	<i>% of Net Assets</i>
Exxon Mobil Corp.	\$104,430,600	11.1%
Chevron Corp.	54,756,000	5.8
Schlumberger Ltd.	47,566,400	5.1
ConocoPhillips	43,715,944	4.7
Valero Energy Corp.	31,390,500	3.3
Weatherford International, Ltd.	27,264,254	2.9
Noble Energy, Inc.	26,827,700	2.9
Devon Energy Corp.	25,835,700	2.8
XTO Energy Inc.	23,439,000	2.5
Occidental Petroleum Corp.	23,152,000	2.5
Total	<u>\$408,378,098</u>	<u>43.6%</u>

SECTOR WEIGHTINGS



SCHEDULE OF OUTSTANDING OPTION CONTRACTS

June 30, 2007

Contracts (100 shares each)	Security	Strike Price	Contract Expiration Date	Appreciation/ (Depreciation)
COVERED CALLS				
240	Marathon Oil Co.	\$62.50	Oct 07	\$ (67,560)
100	Noble Energy, Inc.	70	Aug 07	5,200
200	Occidental Petroleum Corp.	55	Aug 07	(67,601)
400	Questar Corp.	45	Jul 07	(301,601)
100	Rohm & Haas Co.	55	Oct 07	(11,037)
100	Suncor Energy	95	Sep 07	(18,300)
300	Suncor Energy	100	Sep 07	(35,401)
<u>1,440</u>				<u>(496,300)</u>
COLLATERALIZED PUTS				
150	Exxon Mobil Corp.	65	Jul 07	16,649
150	Forest Oil Corp.	35	Aug 07	10,800
100	Lubrizol Corp.	55	Dec 07	(39,300)
100	Lubrizol Corp.	60	Dec 07	(24,300)
250	Southwestern Energy Co.	35	Sep 07	14,874
200	Southwestern Energy Co.	40	Sep 07	(4,100)
<u>950</u>				<u>(25,377)</u>
				<u><u>\$(521,677)</u></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, 2007
(unaudited)*

	Shares		Held June 30, 2007
	Additions	Reductions	
Bronco Drilling Co., Inc.	235,400		240,000
Chevron Corp.	15,000		650,000
Marathon Oil Co.	120,000 ⁽¹⁾		240,000
Questar Corp.	180,000 ⁽¹⁾	20,000	360,000
Air Products and Chemicals, Inc.		10,000	115,000
Aqua America, Inc.		71,000	281,000
BJ Services Co.		180,000	240,000
BP plc ADR		180,000	—
Holly Corp.		360,000	—
Martin Marietta Materials, Inc.		5,000	—
Valero Energy Corp.		10,000	425,000

⁽¹⁾ By stock split.

Common Stock

Listed on the New York Stock Exchange

Petroleum & Resources Corporation

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

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

Website: www.peteres.com

E-mail: contact@peteres.com

Counsel: Chadbourne & Parke L.L.P.

Independent Registered Public Accounting Firm: PricewaterhouseCoopers LLP

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

Custodian of Securities: Brown Brothers Harriman & Co.

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 (the Corporation) at June 30, 2007, 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, 2007 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Baltimore, Maryland
July 13, 2007

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

(unaudited)

Dec. 31	Value Of Net Assets	Shares Outstanding*	Net Asset Value Per Share*	Market Value Per Share*	Dividends From Investment Income Per Share*	Distributions From Net Realized Gains Per Share*	Total Dividends and Distributions Per Share*	Annual Rate of Distribution**
1997	\$556,452,549	20,134,181	\$27.64	\$24.33	\$.51	\$1.04	\$1.55	6.37%
1998	474,821,118	20,762,063	22.87	20.42	.52	1.01	1.53	6.48
1999	565,075,001	21,471,270	26.32	21.50	.48	1.07	1.55	7.00
2000	688,172,867	21,053,644	32.69	27.31	.39	1.35	1.74	6.99
2001	526,491,798	21,147,563	24.90	23.46	.43	1.07	1.50	5.61
2002	451,275,463	21,510,067	20.98	19.18	.43	.68	1.11	5.11
2003	522,941,279	21,736,777	24.06	23.74	.38	.81	1.19	5.84
2004	618,887,401	21,979,676	28.16	25.78	.44	.88	1.32	5.40
2005	761,913,652	21,621,072	35.24	32.34	.56	1.22	1.78	5.90
2006	812,047,239	22,180,867	36.61	33.46	.47	3.33	3.80	11.26
June 30, 2007	937,675,578	21,877,275	42.86	38.62	.29†	.10†	.39†	—

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

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

† Paid or declared.

In June 2007, the Board of Directors of the Corporation adopted Amended and Restated Bylaws for the Corporation. Among other changes, the Amended and Restated Bylaws:

- add procedures and informational requirements governing the calling of a stockholder-requested special meeting of stockholders;
- add informational requirements and modify the timing for the advance notice of stockholder nominees for the Board of Directors and of other stockholder proposals—stockholders are now generally required to notify the Corporation in writing of any proposal which they intend to present at an annual meeting of stockholders, including any nominations for director, between 120 and 150 days prior to the first anniversary of the mailing date of the notice for the prior year’s annual meeting of stockholders.
- implement changes to conform to the charter of the Corporation as recently amended and restated by the stockholders, and

- include updates to conform to changes in Maryland law and current corporate governance practice.

As a result of the changes to the advance notice bylaws summarized above, the advance notice of Director nominees and any other proposals that a stockholder seeks to bring before the 2008 Annual Meeting but does not seek to have included in the Corporation’s proxy statement and form of proxy for that meeting must be received at the office of the Corporation **no earlier than September 19, 2007, and no later than October 19, 2007**. Please note that these dates are different from those that were provided in the Corporation’s proxy statement for the 2007 Annual Meeting, which dates are no longer correct.

The foregoing is only a summary and is qualified in its entirety by reference to the Amended and Restated Bylaws, a copy of which will be filed with the Securities and Exchange Commission as an exhibit to the Corporation’s next report on Form NSAR. The Amended and Restated Bylaws are also available upon written request to the Secretary of the Corporation.

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.

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

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

PROXY VOTING POLICIES AND RECORD

A description of the policies and procedures that the Corporation uses to determine how to vote proxies relating to portfolio securities owned by the Corporation and information as to how the Corporation voted proxies relating to portfolio securities during the 12 month period ended June 30, 2007 are available (i) without charge, upon request, by calling the Corporation's toll free number at (800) 638-2479; (ii) on the Corporation's website by clicking on "Corporate Information" heading on the website; and (iii) on the Securities and Exchange Commission's website at <http://www.sec.gov>.

PRIVACY POLICY

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

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

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

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

To transfer shares to another participant or to a new participant

Fees are subject to change at any time.

Minimum and Maximum Cash Investments

Initial minimum investment (non-holders)	\$500.00
Minimum optional investment (existing holders)	\$50.00
Electronic Funds Transfer (monthly minimum)	\$50.00
Maximum per transaction	\$25,000.00
Maximum per year	NONE

A brochure which further details the benefits and features of INVESTORS CHOICE as well as an enrollment form may be obtained by contacting AST.

For Non-Registered Stockholders

For stockholders whose stock is held by a broker in “street” name, the AST INVESTORS CHOICE Direct Stock Purchase and Sale Plan remains available through many registered investment security dealers. If your shares are currently held in a “street” name or brokerage account, please contact your broker for details about how you can participate in AST’s Plan or contact AST.

The Corporation

Petroleum & Resources Corporation

Lawrence L. Hooper, Jr.

Vice President, General Counsel and Secretary

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

(800) 638-2479

Website: www.peteres.com

E-mail: contact@peteres.com

The Transfer Agent

American Stock Transfer & Trust Company

Address Stockholder Inquiries to:

Stockholder Relations Department

59 Maiden Lane

New York, NY 10038

(866) 723-8330

Website: www.amstock.com

E-mail: info@amstock.com

Investors Choice Mailing Address:

Attention: Dividend Reinvestment

P.O. Box 922

Wall Street Station

New York, NY 10269-0560

Website: www.amstock.com

E-mail: info@amstock.com

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

PETROLEUM & RESOURCES CORPORATION

Board of Directors

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

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

Officers

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

Stock Data

Market Price (6/30/07)	\$38.62
Net Asset Value (6/30/07)	\$42.86
Discount:	9.9%

New York Stock Exchange ticker symbol: PEO
NASDAQ Mutual Fund Quotation Symbol: XPEOX
Newspaper stock listings are generally under the abbreviation: PetRs

Distributions in 2007

From Investment Income (paid or declared)	\$0.29
From Net Realized Gains	0.10
Total	<u>\$0.39</u>

2007 Dividend Payment Dates

March 1, 2007
June 1, 2007
September 1, 2007
December 27, 2007*

*Anticipated

Petroleum & Resources Corporation Semi-Annual Report

June 30, 2007

INVESTING IN RESOURCES FOR THE FUTURE®



**Petroleum
& Resources
Corporation**®