Petroleum
& Resources
Corporation®

Annual Report
2001

investing in resources
for the future®

THE COMPANY

- a closed-end equity investment company emphasizing natural resources stocks
- objectives: preservation of capital
  reasonable income
  opportunity for capital gain
- internally-managed
- low expense ratio
- low turnover

STOCK DATA

NYSE Symbol	PEO
Market Price as of 12/31/01	$23.46
Discount	5.8%
52-Week Range	$32.65–$22.06
Shares Outstanding	21,147,563

SUMMARY FINANCIAL INFORMATION

	Year Ended December 31	
	2001	**2000**
Net asset value per share	$ 24.90	$ 32.69
Total net assets	526,491,798	688,172,867
Unrealized appreciation	200,798,077	365,144,132
Net investment income	10,098,102	7,671,089
Total realized gain	22,308,303	27,333,550
Total return (based on market value)	(8.7)%	36.1%
Total return (based on net asset value)	(19.0)%	33.1%
Expense ratio	0.35%	0.59%

2001 DIVIDENDS AND DISTRIBUTIONS

Paid	**Amount (per share)**	**Type**
March 1, 2001	$0.03	Long-term capital gain
March 1, 2001	0.05	Short-term capital gain
March 1, 2001	0.05	Investment income
June 1, 2001	0.13	Investment income
September 1, 2001	0.13	Investment income
December 27, 2001	0.94	Long-term capital gain
December 27, 2001	0.05	Short-term capital gain
December 27, 2001	0.12	Investment income
	$1.50	

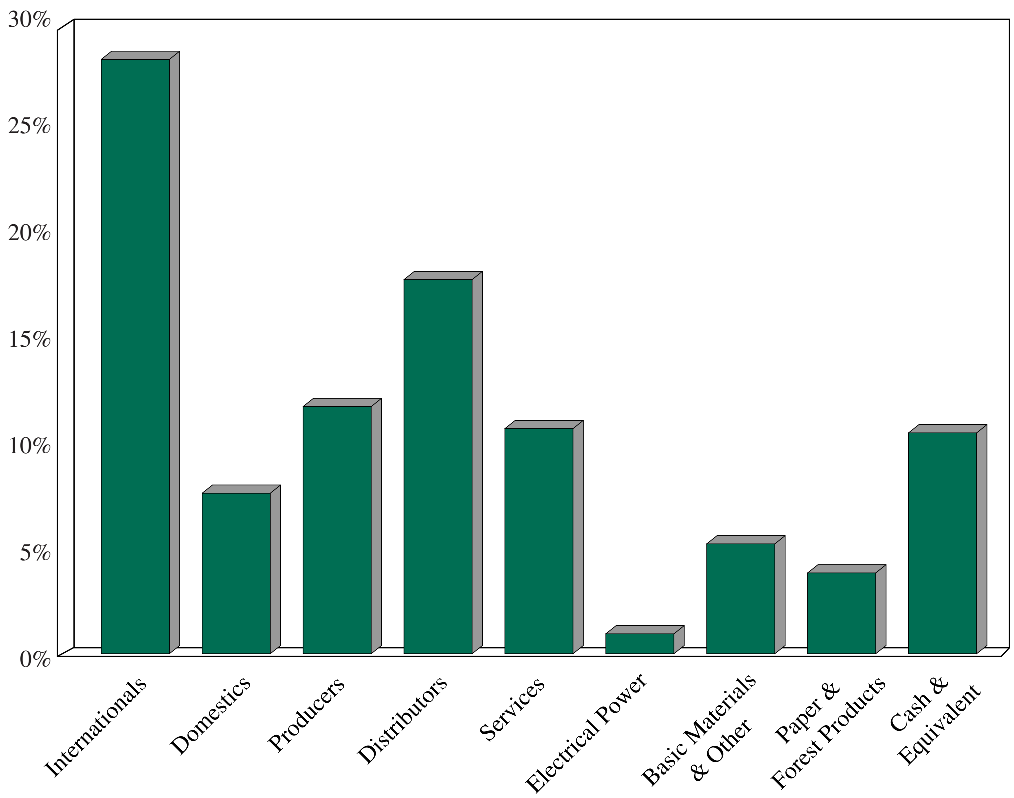
2002 ANNUAL MEETING OF STOCKHOLDERS

Location: Royal Palms Hotel, Phoenix, Arizona
Date: March 26, 2002
Time: 10:00 a.m.
Holders of Record: February 15, 2002

TEN LARGEST PORTFOLIO HOLDINGS (12/31/01)

	Market Value	*% of Net Assets*
Exxon Mobil Corp.	$ 47,728,358	9.1
Royal Dutch Petroleum Co.	39,706,200	7.5
ChevronTexaco Corp.	22,617,564	4.3
BP plc ADR	22,417,820	4.3
Anadarko Petroleum Corp.	16,926,860	3.2
General Electric Co.	16,032,000	3.0
El Paso Corp.	13,383,000	2.5
BJ Services Co.	12,980,000	2.5
Schlumberger Ltd.	12,605,530	2.4
Equitable Resources Inc.	12,299,270	2.3
Total	$216,696,602	41.1%

SECTOR WEIGHTINGS (12/31/01)



In this annual report, you will find our financial statements for the year 2001, the report of independent accountants, our year-end portfolio holdings, and summary financial information for the Corporation.

THE YEAR IN REVIEW

The return on net assets, including income and capital gains distributions for the calendar year was a decrease of 19.0%, exceeding the 11.8% negative rate of return for the Standard & Poor's 500 Stock Index. Similarly, the Dow Jones Energy Index fell 13.3% and the average natural resources mutual fund provided a return of –10.0%. Total dividends and distributions paid in 2001 were $1.50 per share compared to $1.74 in 2000.

In concert with the general stock market, all major energy sectors recorded declines for the full year. Major international oils were the leading performers, producing a decrease of only 5%. Oil service, mid-sized exploration companies and oil drilling stocks all recorded declines exceeding 20%. In response to sharply lowered growth prospects and investor concerns over financial security, our investments in natural gas pipeline and electrical power generators experienced a substantial decrease in valuation. While a small capital gain was recorded with liquidation of our Enron Corp. holding during the year, Enron's collapse and bankruptcy filing were particularly disappointing. Our diverse holdings in basic industries recorded excellent results with paper and forest products stocks showing a modest gain while the basic materials sector collectively outperformed the S&P 500. Our cash and short-term investments were expanded to a year-end position of 11.1% of net assets compared to 4.4% the prior year.

Energy equities recorded only three months of positive performance for the full year. Although oil prices remained near $28 per barrel during the first quarter, the Dow Jones Energy Index declined 5.7% reflecting concern that excess OPEC oil production would soon become disruptive. In April, the Index reversed course, advancing 10.3%, as OPEC adhered to its newly reduced oil production quotas and significantly lowered output. Over the summer, with worldwide economic activity and energy demand weakening, energy equities declined steadily. The tragic events of September 11 caused both the overall stock market and energy equities to drop approximately 11% for the month as investor confidence was shaken and energy usage fell sharply. Despite concerns over crude oil and natural gas pricing, the Index advanced 7.7% during the fourth quarter.

Oil Industry

OPEC began the year stating its intention to defend the $25 per barrel crude oil price. During the first quarter, concern over the impact on oil demand by slowing worldwide economies caused OPEC to reduce its production quotas in February and again in March. The combination of surprisingly solid OPEC compliance to these new quotas and the need to rebuild unusually low inventories resulted in a balanced market and oil prices trading in a range of $26 to $30 through August 2001. Unfortunately, the terrorist acts of September threw the already weakening worldwide economies into a further tailspin, causing global oil consumption to decline. With inventories building sharply and oil prices declining by $7 per barrel, OPEC needed to reduce its production further. However, in a surprising announcement in November, OPEC stated that its quota reduction of 1.5 million barrels per day required a commitment by leading non-OPEC countries to a cut of 500,000 barrels per day. While this action was designed to slow the recent rapid production growth of various non-OPEC producers, it was aimed principally at Russia, Mexico and Norway. The latter two countries agreed to significant cutbacks and negotiations with Russia continued to year end. As a result, the crude oil price traded near $19 per barrel for the final six weeks of 2001.

Natural Gas Industry

Domestic natural gas prices declined steadily and dramatically throughout the year. In January, prices peaked to record levels in response to extremely cold winter weather and low storage levels. The following months saw gas prices drop approximately 70%, reflecting several factors: fuel switching to cheaper energy, softness in summer demand due to cool weather, and the impact of the slowdown in industrial production and other economic activity. During the fourth quarter, with temperatures averaging over 20% warmer than normal, natural gas demand and prices remained at low levels.

Electric Power

What began as an optimistic year for the industry ended with a major reassessment of growth for power generation and distribution. The initial positive outlook reflected the continuing expansion of electricity consumption by technology users, the relatively stable economy and the need to replace aging power facilities. The California power crisis in particular focused attention on the potential for regional power shortages and the need for more reliable power supply. As the year progressed, the weakening domestic economy, coupled with unfavorable summer weather from a power demand perspective, resulted in lower electricity usage. Reflecting the Enron collapse, regulatory uncertainty and concern over the industry's financial stability, the power sector concluded the year with a crisis of investor confidence.

INVESTMENT RESULTS

Net assets of the Corporation on December 31, 2001 were $526,491,798 or $24.90 per share on 21,147,563 shares outstanding as compared with $688,172,867 or $32.69 per share on 21,053,644 shares outstanding a year earlier.

Net investment income for 2001 was $10,098,102 compared to $7,671,089 for 2000. These earnings are equivalent to $0.49 and $0.37 per share, respectively, on the average number of shares outstanding throughout each year. In 2001, our 0.35% expense ratio (expenses to average net assets) was once again at a very low level compared to the industry.

Net realized gains amounted to $22,308,303 during the year, while the unrealized appreciation on investments decreased from $365,144,132 at December 31, 2000 to $200,798,077 at year end.

DIVIDENDS AND DISTRIBUTIONS

Total dividends and distributions paid in 2001 were $1.50 per share compared to $1.74 in 2000. As announced on November 8, 2001, a year-end distribution consisting of investment income of $0.12 and capital gains of $0.99 was made on December 27, 2001, both realized and taxable in 2001. On January 10, 2002, an additional distribution of $0.13 per share was declared payable March 1, 2002, representing the balance of undistributed net investment income and capital gains earned in 2001 and an initial distribution from 2002 net investment income, all taxable to shareholders in 2002.

OUTLOOK FOR 2002

Crude Oil

The prospects for oil markets will continue to be significantly influenced by OPEC's ability to remain united and by the pace of recovery of energy demand. In the near term, worldwide economies are expected to remain stagnant, oil markets fully supplied and inventories high. Compliance by both OPEC and non-OPEC countries to their lowered production levels will be required to maintain oil prices. Current demand/supply forecasts suggest that a production drop of at least 1.0 million barrels per day during the first half of this year will be needed to lower the excess inventory position. Any favorable outlook for oil centers on the second half of 2002. Low interest rates and modest inflation combined with expected federal fiscal stimulus should enhance consumer confidence and boost overall economic activity. A substantial rebound in oil demand should follow, allowing OPEC to more easily influence supply levels and rebalance the market. Our prior expectation was that OPEC would be able to maintain a reasonable degree of unity, keep production discipline and stabilize oil prices near $25 per barrel. However, the impact of September events on global economic growth and oil consumption suggest that the crude oil market will be more difficult to balance and that a price approximating $20 per barrel is more likely.

Natural Gas

The natural gas market enters this year with soft demand, record high storage levels and weakening prices. The prospect for higher gas prices will be heavily influenced by the severity of the winter heating season during the first quarter and the strength of economic recovery over the final six months. On the supply side, domestic production will decrease due to natural gas field declines and reduced drilling activity. Overall, unless an extended recession develops, the natural gas market is forecast to move into better balance with prices improving by mid year.

Electric Power

Growth in power consumption will accelerate with domestic economic expansion. The need for continuing infrastructure improvements in transmission and distribution will provide opportunities. Uncertain deregulation trends and anticipated capacity surpluses in some regions will offer challenging market dynamics. In view of greater scrutiny by credit rating agencies and investors, industry leaders are currently taking aggressive action to secure their financial structure. Once liquidity concerns and reduced profitability targets are fully defined, investors are expected to revisit the positive fundamentals of the industry.

In general, energy equities have been under pressure the past several months as profit growth expectations have deteriorated. Renewed investor attention to the various energy and resource sectors will return once a combination of improving economic activity and energy price stabilization near our forecasted levels becomes more visible.

SHARE REPURCHASE PROGRAM

On December 13, 2001, the Board of Directors authorized the repurchase by management of an additional 5% of the outstanding shares of the Corporation over the ensuing year. The repurchase program is subject to the same restriction as in the past, namely that shares can only be repurchased as long as the discount of the market price of the shares from the net asset value is greater than 8%.

The proxy statement for the Annual Meeting of Stockholders to be held in Phoenix, Arizona on March 26, 2002, will be mailed on or about February 22, 2002 to holders of record on February 15, 2002.

By order of the Board of Directors,

Douglas G. Ober,
Chairman and Chief Executive Officer

Richard F. Koloski,
President

January 18, 2002

December 31, 2001

Assets		
Investments* at value:		
Common stocks and convertible securities		
(cost $265,289,321)	$466,075,126	
Short-term investments (cost $58,399,110)	58,399,110	$524,474,236
Cash		43,398
Securities lending collateral		19,258,577
Receivables:		
Investment securities sold		1,010,966
Dividends and interest		521,357
Prepaid expenses and other assets		2,067,096
Total Assets		547,375,630
Liabilities		
Open written option contracts at value (proceeds $84,272)		72,000
Obligations to return securities lending collateral		19,258,577
Accrued expenses and other liabilities		1,553,255
Total Liabilities		20,883,832
Net Assets		$526,491,798

Net Assets	
Common Stock at par value $1.00 per share, authorized	
50,000,000 shares; issued and outstanding 21,147,563 shares	$ 21,147,563
Additional capital surplus	301,405,045
Undistributed net investment income	1,264,018
Undistributed net realized gain on investments	1,877,095
Unrealized appreciation on investments	200,798,077
Net Assets Applicable to Common Stock	$526,491,798
Net Asset Value Per Share of Common Stock	$24.90

** See schedule of investments on pages 11 through 13.*

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

Year Ended December 31, 2001

Investment Income	
Income:	
Dividends	$ 10,890,938
Interest and other income	1,308,504
Total income	12,199,442
Expenses:	
Investment research	697,110
Administration and operations	396,337
Directors' fees	203,500
Reports and stockholder communications	241,958
Transfer agent, registrar and custodian expenses	178,928
Auditing and accounting services	72,562
Legal services	30,213
Occupancy and other office expenses	94,875
Travel, telephone and postage	66,036
Other	119,821
Total expenses	2,101,340
Net Investment Income	10,098,102
Realized Gain and Change in Unrealized Appreciation on Investments	
Net realized gain on security transactions	22,308,303
Change in unrealized appreciation on investments	(164,346,055)
Net Loss on Investments	(142,037,752)
Change in Net Assets Resulting from Operations	$(131,939,650)

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

	For the Year Ended	
	Dec. 31, 2001	Dec. 31, 2000
From Operations:		
Net investment income	$ 10,098,102	$ 7,671,089
Net realized gain on investments	22,308,303	27,333,550
Change in unrealized appreciation on investments	(164,346,055)	134,678,179
Change in net assets resulting from operations	(131,939,650)	169,682,818
Distributions to Stockholders From:		
Net investment income	(8,877,046)	(8,104,080)
Net realized gain from investment transactions	(22,032,850)	(27,598,975)
Decrease in net assets from distributions	(30,909,896)	(35,703,055)
From Capital Share Transactions:		
Value of shares issued in payment of distributions	13,159,002	18,901,062
Cash in lieu of fractional shares issued in payment of 3-for-2 stock split	—	(68,568)
Cost of shares purchased (note 4)	(11,990,525)	(29,714,391)
Change in net assets from capital share transactions	1,168,477	(10,881,897)
Total Increase (Decrease) in Net Assets	(161,681,069)	123,097,866
Net Assets:		
Beginning of year	688,172,867	565,075,001
End of year (including undistributed net investment income of $1,264,018 and $3,835, respectively)	$526,491,798	$688,172,867

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 securities 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 December 31, 2001 was $323,730,608, and net unrealized appreciation aggregated $200,827,900, of which the related gross unrealized appreciation and depreciation were $213,014,987 and $12,187,087, respectively. The undistributed ordinary income was $870,061 and the undistributed long-term capital gain was $1,588,104.

Distributions paid by the Corporation during the year ended December 31, 2001 were classified as ordinary income of $10,952,053, and long-term capital gain of $19,957,843. The distributions are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. Accordingly, periodic 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 year ended December 31, 2001 were $38,382,459 and $88,039,968, respectively. 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 options is limited to the premium originally paid.

Option transactions comprised an insignificant portion of operations during the year ended December 31, 2001. All investment decisions are made by a committee, and no one person is primarily responsible for making recommendations to that committee.

4. CAPITAL STOCK

On March 28, 2000, stockholders approved an increase in the number of authorized shares of Common Stock from 25,000,000 to 50,000,000. In addition, the Corporation has 5,000,000 authorized and unissued preferred shares without par value.

On October 19, 2000, the Corporation effected a 3-for-2 stock split. All references to the number of outstanding shares and per share amounts have been adjusted retroactively to reflect the stock split.

On December 27, 2000, the Corporation issued 760,799 shares of its Common Stock at a price of $24.8437 per share (the average market price on December 11, 2000) to stockholders of record November 20, 2000 who elected to take stock in payment of the distribution from 2000 capital gain and investment income.

On December 27, 2001, the Corporation issued 579,054 shares of its Common Stock at a price of $22.725 per share (the average market price on December 10, 2001) to stockholders of record November 19, 2001 who elected to take stock in payment of the distribution from 2001 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 2001 and 2000 were as follows:

	Shares		Amount	
	2001	2000	2001	2000
Shares issued in payment of dividends	579,054	760,799	$ 13,159,002	$ 18,901,062
Shares issued for 3-for-2 stock split		6,827,415		
Cash in lieu of fractional shares issued in payment of 3-for-2 stock split				(68,568)
Total increase	579,054	7,588,214	$ 13,159,002	$ 18,832,494
Shares purchased (at an average discount from net asset value of 9.4% and 16.6%, respectively)	(429,150)	(848,750)	(11,990,525)	(29,714,391)
Total decrease	(429,150)	(848,750)	$(11,990,525)	$(29,714,391)
Net change	149,904	6,739,464	$ 1,168,477	$(10,881,897)

The cost of the 42,832 shares of Common Stock held by the Corporation at December 31, 2001 amounted to $1,061,166.

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 2001, there were 212,694 options outstanding with a weighted average exercise price of $14.7283 per share. During 2001, the Corporation granted options, including stock appreciation rights, for 20,664 shares of common stock with an exercise price of $27.0938 per share. During the year stock appreciation rights relating to 84,361 stock option shares were exercised at a weighted average market price of $28.2398 per share and the stock options relating to these rights which had a weighted average exercise price of $11.5078 per share were cancelled. At December 31, 2001, there were 20,031 outstanding exercisable options to purchase common shares at $9.8017–$19.9067 per share (weighted average price of $14.7908) and unexercisable options to purchase 128,966 common shares at $9.8017–$26.0238 per share (weighted average price of $17.5214). The weighted average remaining contractual life of outstanding exercisable and unexercisable options was 5.2910 years and 5.9936 years, respectively. The total compensation expense recognized in 2001 for the stock option and stock appreciation rights plan was a credit of $99,572. At December 31, 2001, there were 298,698 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. The plan assets consist primarily of investments in individual stocks, bonds and mutual funds.

The actuarially computed net pension cost credit for the year ended December 31, 2001 was $51,597, and consisted of service cost of $104,730, interest cost of $217,272, expected return on plan assets of $359,593, and net amortization credit of $14,006.

In determining the actuarial present value of the projected benefit obligation, the interest rate used for the weighted average discount rate was 7.5%, the expected rate of annual salary increases was 7.0%, and the expected long-term rate of return on plan assets was 8.0%.

On January 1, 2001, the projected benefit obligation for service rendered to date was $2,935,689. During 2001, the projected benefit obligation increased due to service cost and interest cost of $104,730 and $217,272, respectively, and decreased due to benefits paid in the amount of $77,466. The projected benefit obligation at December 31, 2001 was $3,180,225.

On January 1, 2001, the fair value of plan assets was $4,533,648. During 2001, the fair value of plan assets increased due to the expected return on plan assets of $359,593 and decreased due to benefits paid in the amount of $77,466. At December 31, 2001, the fair value of plan assets amounted to $4,815,775, which resulted in excess plan assets of $1,635,550. The remaining components of prepaid pension cost at December 31, 2001 included $180,381 in unrecognized gain, and $241,216 in unrecognized prior service cost. Prepaid pension cost included in other assets at December 31, 2001 was $1,696,385.

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 December 31, 2001 for employees and former employees of the Corporation was $1,423,353. Aggregate remuneration paid or accrued during the year ended December 31, 2001 to officers and directors amounted to $808,820, which is reduced by $99,572 for stock options and stock appreciation rights.

7. PORTFOLIO SECURITIES LOANED

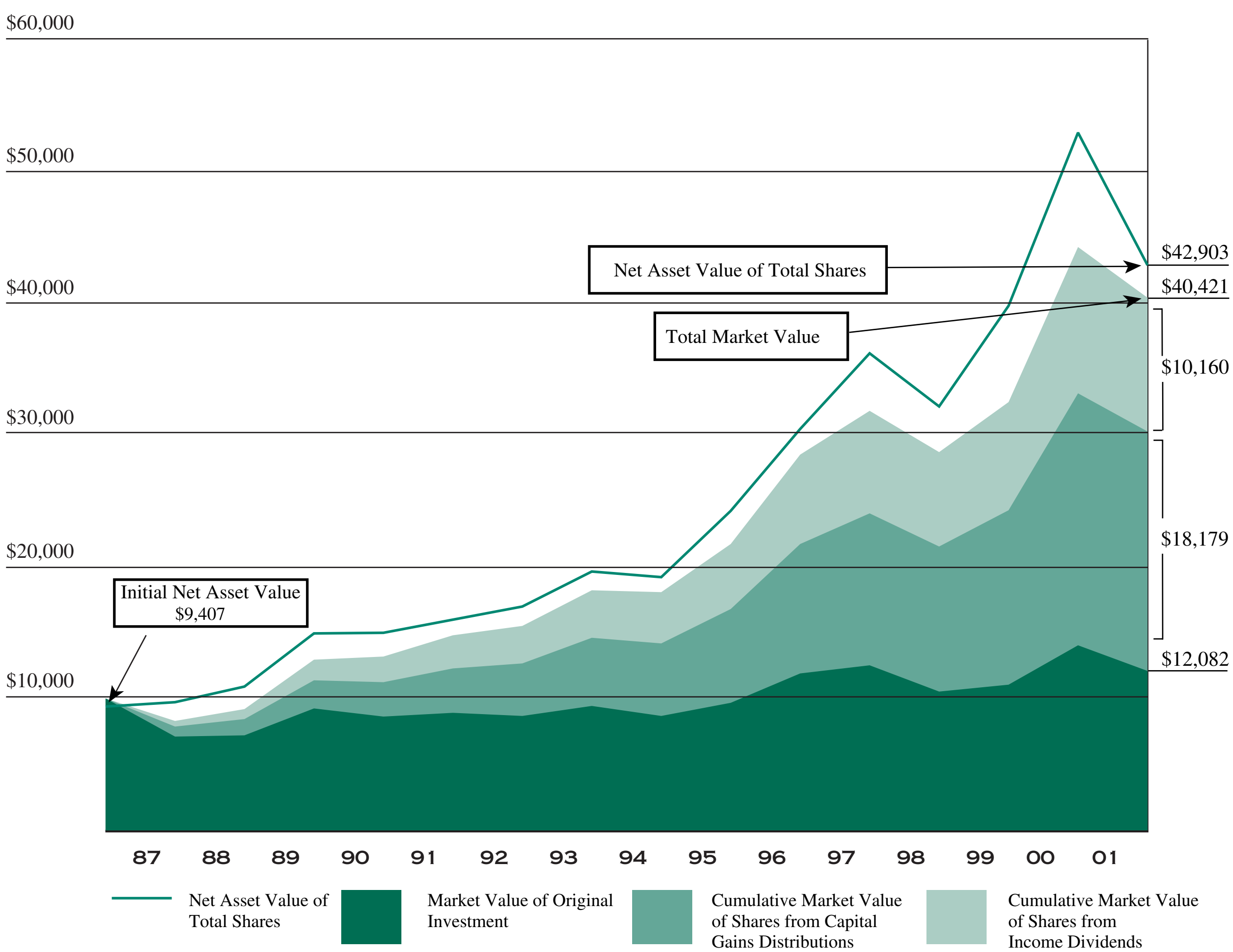
The Corporation makes loans of securities to brokers, secured by cash deposits, U.S. Government securities, or bank letters of credit. The Corporation accounts for securities lending transactions as secured financing and receives compensation in the form of fees or retains a portion of interest on the investment of any cash received as collateral. The Corporation also continues to receive interest or dividends on the securities loaned. The loans are secured by collateral of at least 102%, at all times, 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 December 31, 2001, the Corporation had securities on loan of $18,457,364, and held cash collateral of $19,258,577.

Calendar Years	Market value of original shares	Cumulative market value of capital gains distributions taken in shares	Cumulative market value of income dividends taken in shares	Total market value	Total net asset value
1987	$ 7,122	$ 737	$ 453	$ 8,312	$ 9,732
1988	7,210	1,228	788	9,226	10,913
1989	9,270	2,134	1,574	12,978	14,944
1990	8,626	2,605	1,967	13,198	15,019
1991	8,925	3,380	2,513	14,818	16,000
1992	8,667	4,004	2,862	15,533	17,020
1993	9,440	5,174	3,588	18,202	19,622
1994	8,667	5,529	3,862	18,058	19,200
1995	9,697	7,085	4,966	21,748	24,263
1996	11,933	9,776	6,813	28,522	30,439
1997	12,530	11,530	7,788	31,848	36,181
1998	10,516	11,013	7,181	28,710	32,151
1999	11,073	13,223	8,234	32,530	39,822
2000	14,065	19,080	11,098	44,243	52,958
2001	12,082	18,179	10,160	40,421	42,903

ILLUSTRATION OF AN ASSUMED 15 YEAR INVESTMENT OF $10,000

(unaudited)

Investment income dividends and capital gains distributions are taken in additional shares. This chart covers the years 1987–2001. Assumes commissions of $0.05 per share on the initial shares invested. Fees for the reinvestment of dividends are assumed as outlined on page 17. No adjustment has been made for any income taxes payable by stockholders on income dividends or on capital gains distributions or the sale of any shares. These results should not be considered representative of the dividend income or capital gain or loss which may be realized in the future.



	Year Ended December 31				
	2001	2000	1999	1998	1997
Per Share Operating Performance*					
Net asset value, beginning of year	$32.69	$26.32	$22.87	$27.64	$24.73
Net investment income	0.49	0.37	0.48	0.55	0.51
Net realized gains and change in unrealized appreciation and other changes	(6.84)	7.46	4.51	(3.79)	3.95
Total from investment operations	(6.35)	7.83	4.99	(3.24)	4.46
Capital share repurchases	0.06	0.28	0.01	—	—
Less distributions					
Dividends from net investment income	(0.43)	(0.39)	(0.48)	(0.52)	(0.51)
Distributions from net realized gains	(1.07)	(1.35)	(1.07)	(1.01)	(1.04)
Total distributions	(1.50)	(1.74)	(1.55)	(1.53)	(1.55)
Net asset value, end of year	$24.90	$32.69	$26.32	$22.87	$27.64
Per share market price, end of year	$23.46	$27.31	$21.50	$20.42	$24.33

Total Investment Return					
Based on market price	(8.7)%	36.1%	13.3%	(10.0)%	11.7%
Based on net asset value	(19.0)%	33.1%	23.8%	(11.1)%	18.9%
Ratios/Supplemental Data					
Net assets, end of year (in 000's)	$526,492	$688,173	$565,075	$474,821	$556,453
Ratio of expenses to average net assets	0.35%	0.59%	0.43%	0.31%	0.47%
Ratio of net investment income to average net assets	1.67%	1.24%	1.86%	2.13%	1.91%
Portfolio turnover	6.74%	7.68%	11.89%	12.70%	13.09%
Number of shares outstanding at end of year (in 000's)*	21,148	21,054	21,471	20,762	20,134

*Adjusted to reflect the 3-for-2 stock split effected in October, 2000.

December 31, 2001

	Shares	Value (A)
Stocks and Convertible Securities — 88.6%		
Energy — 78.4%		
Internationals — 28.4%		
BP plc ADR	482,000	$ 22,417,820
ChevronTexaco Corp.	252,400	22,617,564
Exxon Mobil Corp.	1,214,462	47,728,358
Royal Dutch Petroleum Co.	810,000	39,706,200
"Shell" Transport and Trading Co., plc ADR	200,000	8,290,000
TotalFina Elf ADR (B)	125,000	8,780,000
		149,539,942
Domestics — 7.6%		
Amerada Hess Corp.	80,000	5,000,000
Conoco Inc.	300,000	8,490,000
Kerr McGee Corp.	177,153	9,707,984
Murphy Oil Corp.	93,500	7,857,740
Unocal Capital Trust $3.125 Conv. Pfd.	72,540	3,608,865
Unocal Corp.	150,000	5,410,500
		40,075,089
Producers — 12.2%		
Anadarko Petroleum Corp.	297,746	16,926,860
Apache Corp.	154,000	7,681,520
Devon Energy Corp.	122,500	4,734,625
EOG Resources, Inc. (B)	200,000	7,822,000
Noble Affiliates Inc.	125,000	4,411,250
Occidental Petroleum Corp.	175,000	4,642,750
Ocean Energy, Inc.	550,000	10,560,000
Pioneer Natural Resources Co. (C)	170,000	3,274,200
Stone Energy Corp. (C)	104,300	4,119,850
		64,173,055
Distributors —17.8%		
Atmos Energy Corp.	139,500	2,964,375
Duke Energy Corp. 8.25% Conv. Pfd. due 2004 (B)	160,000	4,216,000
Duke Energy Corp.	77,200	3,030,872
El Paso Corp.	300,000	13,383,000
Energen Corp.	250,000	6,162,500
Equitable Resources Inc.	361,000	12,299,270
Keyspan Corp.	220,000	7,623,000
Kinder Morgan, Inc.	162,500	9,049,625
National Fuel Gas Co.	200,000	4,940,000
New Jersey Resources, Inc.	185,000	8,658,000
Northwestern Corp.	200,000	4,210,000
Questar Corp. (B)	268,000	6,713,400
TECO Energy, Inc.	200,000	5,248,000
Williams Companies, Inc.	200,000	5,104,000
		93,602,042

December 31, 2001

	Shares	Value (A)
Services — 11.0%		
BJ Services Co. (B)(C)	400,000	$ 12,980,000
Core Laboratories N.V. (C)	209,400	2,935,788
Global Santa Fe Corp.	180,000	5,133,600
Grant Prideco Inc. (C)	308,000	3,542,000
Nabors Industries, Inc. (C)	200,000	6,866,000
Schlumberger Ltd.	229,400	12,605,530
Transocean Sedco Forex Inc.	200,000	6,764,000
Weatherford International, Inc. (B)(C)	190,000	7,079,400
		57,906,318
Electrical Power — 1.4%		
Dynegy, Inc. Class A	175,000	4,462,500
Mirant Trust 6.25% Conv. Pfd. Ser. A	8,000	325,200
Mirant Corp. (C)	149,000	2,386,980
		7,174,680
Basic Industries — 10.2%		
Basic Materials & Other — 5.8%		
Arch Coal Inc.	155,000	3,518,500
Engelhard Corp.	300,000	8,304,000
General Electric Co.	400,000	16,032,000
Philadelphia Suburban Corp.	120,000	2,706,000
		30,560,500
Paper and Forest Products — 4.4%		
Boise Cascade Corp. 7.5% ACES	51,000	2,776,950
Boise Cascade Corp.	205,000	6,972,050
Mead Corp.	210,000	6,486,900
Temple-Inland, Inc.	120,000	6,807,600
		23,043,500
Total Stocks and Convertible Securities		
(Cost $265,289,321) (D)		466,075,126

December 31, 2001

	Prin. Amt.	Value (A)
Short-Term Investments — 11.1%		
U.S. Government Obligations — 2.1%		
U.S. Treasury Bills, 1.57–1.82%, due 1/31/02–2/28/02	$10,820,000	$ 10,795,200
Commercial Paper — 9.0%		
Cargill, Inc., 1.75%, due 1/24/02	5,000,000	4,994,410
ChevronTexaco Corp., 1.78%, due 1/15/02	2,635,000	2,633,175
Deere (John) Capital Corp., 1.80%, due 1/8/02	5,000,000	4,998,250
Duke Energy Corp., 1.87%, due 1/15/02	5,000,000	4,997,665
General Electric Capital Corp., 1.87%, due 1/8/02	10,000,000	9,996,365
IBM Corp., 1.84–1.92%, due 1/8/02–1/10/02	5,000,000	4,998,026
Kraft Foods Inc., 1.80%, due 1/15/02	5,000,000	4,996,500
Toyota Credit Puerto Rico Corp., 1.81%, due 2/5/02	5,000,000	4,991,201
Wells Fargo Financial, Inc., 1.73%, due 1/8/02	5,000,000	4,998,318
		47,603,910
Total Short-Term Investments		
(Cost $58,399,110)		58,399,110
Total Investments		
(Cost $323,688,431)		524,474,236
Cash, receivables and other assets, less liabilities		2,017,562
Net Assets — 100%		$526,491,798

Notes:
(A) See note 1 to financial statements. Securities are listed on the New York Stock Exchange, the American Stock Exchange, or the NASDAQ.
(B) All or a portion of these securities are on loan. See Note 7 to Financial Statements.
(C) Presently non-dividend paying.
(D) The aggregate market value of stocks held in escrow at December 31, 2001 covering open call option contracts written was $1,680,800. In addition, the required aggregate market value of securities segregated by the custodian to collaterize open put option contracts written was $2,325,000.

During the Three Months Ended December 31, 2001
(unaudited)

	Shares		
	Additions	**Reductions**	**Held Dec. 31, 2001**
Boise Cascade Corp. 7.5% ACES	51,000		51,000
ChevronTexaco Corp.	252,400(1)(2)		252,400
Global Santa Fe Corp.	180,000(3)		180,000
Kinder Morgan, Inc.	162,500(4)		162,500
Philadelphia Suburban Corp.	71,800(5)		120,000
Pioneer Natural Resources Co.	170,000		170,000
Calpine Capital Trust 5.75% Conv. Pfd. HIGH TIDES		80,000	—
Calpine Corp.		40,000	—
Chevron Corp.		160,000(2)	—
General Electric Co.		45,000	400,000
Kinder Morgan, Inc. 8.25% PEPS units due 2001		130,000(4)	—
Orion Power Holdings, Inc.		245,000	—
Santa Fe International Corp.		180,000(3)	—
Texaco Inc.		120,000(1)	—
Valero Energy Corp.		100,000	—

(1) Received 92,400 shares of ChevronTexaco Corp. for shares of Texaco Corp. held.
(2) Received 160,000 shares of ChevronTexaco Corp. for shares of Chevron Corp. held.
(3) By merger.
(4) By conversion.
(5) Received 12,050 shares by stock split.

FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect the Corporation's actual results are the performance of the portfolio of stocks held by the Corporation, the conditions in the U.S. and international financial, petroleum and other markets, the price at which shares of the Corporation will trade in the public markets, and other factors discussed in the Corporation's periodic filings with the Securities and Exchange Commission.

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.

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 December 31, 2001, 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 auditing standards generally accepted in the United States of America, which 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 December 31, 2001 by correspondence with the custodian and brokers provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Baltimore, Maryland
January 10, 2002

Common Stock

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

Petroleum & Resources Corporation

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Telephone: (410)752-5900 or (800)638-2479
Counsel: Chadbourne & Parke L.L.P.
Independent Accountants: PricewaterhouseCoopers LLP

Transfer Agent, Registrar & Custodian of Securities

The Bank of New York
101 Barclay Street
New York, NY 10286
The Bank's Shareholder Relations Department: (866)723-8330
E-Mail: Shareowner-svcs@bankofny.com

WE ARE OFTEN ASKED —

How do I invest in Petroleum & Resources?

Petroleum & Resources Common Stock is listed on the New York Stock Exchange and Pacific Exchange. The stock's ticker symbol is "PEO" and may be bought and sold through registered investment security dealers. Your broker will be able to assist you in this regard. In addition, stock may be purchased through the Bank of New York's Buy*DIRECT* Purchase and Sale Plan (see page 17).

Where do I get information on the stock's price, trading and/or net asset value?

The *daily* net asset value (NAV) per share and closing market price may be obtained from our website at www.peteres.com. The daily NAV is also available on the NASDAQ Mutual Fund Quotation System under the symbol XPEOX. The *week-ending* NAV is published on Saturdays in various newspapers and on Mondays in The Wall Street Journal in a table titled "Closed-End Funds." The table compares the net asset value at the close of the week's last business day to the market price of the shares, and shows the amount of the discount or premium.

Petroleum's daily trading is shown in the stock tables of most daily newspapers, usually with the abbreviated form "PetRs." Local newspapers determine, usually by volume of traded shares, which securities to list. If your paper does not carry our listing, please telephone the Corporation at (800) 638-2479 or visit our website.

How do I replace a lost certificate(s) or how do I correct a spelling error on my certificate?

Your Petroleum stock certificates are valuable documents and should be kept in a safe place. For tax purposes, keep a record of each certificate, including the cost or market value of the shares it covers at the time acquired. If a certificate is lost, destroyed or stolen, notify the Transfer Agent immediately so a "stop transfer" order can be placed on the records to prevent an unauthorized transfer of your certificate. The necessary forms and requirements to permit the issuance of a replacement certificate will then be sent to you. A certificate can be replaced only after the receipt of an affidavit regarding the loss accompanied by an open penalty bond, for which a small premium is paid by the stockholder.

In the event a certificate is issued with the holder's name incorrectly spelled, a correction can only be made if the certificate is returned to the Transfer Agent with instructions for correcting the error. Transferring shares to another name also requires that the certificate be forwarded to the Transfer Agent with the appropriate assignment forms completed and the signature of the registered owner Medallion guaranteed by a bank or member firm of The New York Stock Exchange, Inc.

Can you send my dividend checks directly to my bank?

Yes, provide the Transfer Agent with your bank's name, your branch's mailing address and your account number at your bank. (Sorry, electronic transfer of funds is not offered at this time.)

Who do I notify of a change of address?

The Transfer Agent.

We go to Florida (Arizona) every winter. How do we get our mail from Petroleum & Resources?

The Transfer Agent can program a seasonal address into its system; simply send the temporary address and the dates you plan to be there to The Bank of New York.

I want to give shares to my children, grandchildren, etc. as a gift. How do I go about it?

Giving shares of Petroleum is simple and is handled through our Transfer Agent. The stock transfer rules are clear and precise for most forms of transfer. They will vary slightly depending on each transfer, so write to the Transfer Agent stating the exact intent of your gift plans and the Agent will send you the instructions and forms necessary to effect your transfer.

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.

Buy*DIRECT*SM*

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

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

Initial Enrollment	$7.50
A one-time fee for new accounts who are not currently registered holders.	
Optional Cash Investments	
Service Fee	$2.50 per investment
Brokerage Commission	$0.05 per share
Reinvestment of Dividends**	
Service Fee	10% 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	Included
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 Buy*DIRECT* as well as an enrollment form may be obtained by contacting The Bank of New York.

For Non-Registered Shareholders

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

The Corporation
Petroleum & Resources Corporation
Lawrence L. Hooper, Jr., Vice President, Secretary and General Counsel
Seven St. Paul Street, Suite 1140
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(866) 723-8330
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The Transfer Agent
The Bank of New York
Shareholder Relations Dept.–8W
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New York, NY 10286
(866) 723-8330
Website: http://stock.bankofny.com
E-mail: Shareowner-svcs@bankofny.com

*Buy*DIRECT* is a service mark of The Bank of New York.
**The year-end dividend and capital gain distribution will usually be made in newly issued shares of common stock. There will be no fees or commissions in connection with this dividend and capital gain distribution when made in newly issued shares.

Dec. 31	Value of Net Assets	Shares Outstanding*	Net Asset Value Per Share*	Dividends From Net Investment Income Per Share*	Distributions From Net Realized Gains Per Share*
1987	$234,062,235	14,454,459	$18.27	$ .97	$1.93
1988	248,370,688	14,996,376	16.19	1.11	1.54
1989	322,866,019	15,576,900	16.56	.61	.80
1990	308,599,851	16,189,934	19.06	.73	.83
1991	314,024,187	16,778,358	18.71	.61	.82
1992	320,241,282	17,369,255	18.44	.51	.82
1993	355,836,592	18,010,007	19.76	.55	.87
1994	332,279,398	18,570,450	17.89	.61	.79
1995	401,404,971	19,109,075	21.01	.58	.81
1996	484,588,990	19,598,729	24.73	.55	.88
1997	556,452,549	20,134,181	27.64	.51	1.04
1998	474,821,118	20,762,063	22.87	.52	1.01
1999	565,075,001	21,471,270	26.32	.48	1.07
2000	688,172,867	21,053,644	32.69	.39	1.35
2001	526,491,798	21,147,563	24.90	.43	1.07

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

PETROLEUM & RESOURCES CORPORATION
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 nonpsublic 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.

Personal Information	Position held with the fund	Term of office	Length of time served	Principal Occupations during the last 5 years	Number of portfolios in fund complex overseen by director	Other directorships
Independent Directors						
Enrique R. Arzac 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 60	Director	One Year	Since 1987	Professor of Finance and Economics, formerly Vice Dean of Academic Affairs of the Graduate School of Business, Columbia University.	Two	Director of The Adams Express Company and Credit Suisse Asset Management Funds (8 funds) (investment companies).
Daniel E. Emerson 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 77	Director	One Year	Since 1987	Chairman, The National YMCA Fund Inc. Retired Executive Vice President of NYNEX Corp., Retired Chairman of The Board of both NYNEX Information Resources Co. and NYNEX Mobile Communications Co. Previously Executive Vice President and Director of New York Telephone Company.	Two	Director of The Adams Express Company (investment company).
Edward J. Kelly, III 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 48	Director	One Year	Since October 2001	President and Chief Executive Officer of Mercantile Bankshares Corporation. Formerly Managing Director with J.P. Morgan Chase (investment bank and global financial institution) and prior thereto a partner with the New York City law firm of Davis Polk & Wardell.	Two	Director of The Adams Express Company (investment company) and Hartford Financial Services Group; and member of Board of Trustees of Johns Hopkins University.
Thomas H. Lenagh 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 83	Director	One Year	Since 1987	Financial Advisor, Chairman of the Board, Inrad Corp. (crystals). Formerly Chairman of the Board and CEO of Greiner Engineering Inc. (formerly Systems Planning Corp.) (consultants), and Chief Investment Officer of the Ford Foundation (charitable foundation).	Two	Director of Gintel Fund, Cornerstone Funds, Inc. (3 funds) and The Adams Express Company (investment companies); and ICN Pharmaceuticals International Inc. and China Light Industry Fund.
W. D. MacCallan 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 74	Director	One Year	Since 1971	Retired Chairman of the Board and CEO of the Corporation and The Adams Express Company. Formerly consultant to the Corporation and The Adams Express Company.	Two	Director of The Adams Express Company (investment company).
W. Perry Neff 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 74	Director	One Year	Since 1971	Private Financial Consultant. Retired Executive Vice President of Chemical Bank.	Two	Director of The Adams Express Company (investment company).

Personal Information	Position held with the fund	Term of office	Length of time served	Principal Occupations during the last 5 years	Number of portfolios in fund complex overseen by director	Other directorships
Independent Directors (continued)						
Landon Peters 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 71	Director	One Year	Since 1987	Private Investor. Former Investment Manager, YMCA Retirement Fund. Formerly Executive Vice President and Treasurer and prior thereto Senior Vice President and Treasurer of The Bank of New York.	Two	Director of The Adams Express Company (investment company).
John J. Roberts 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 79	Director	One Year	Since 1987	Senior Advisor, formerly Vice-Chairman External Affairs, American International Group, Inc. (insurance). Formerly Chairman and CEO of American International Underwriters Corporation. Previously President of American International Underwriters Corporation-U.S./ Overseas Operations.	Two	Honorary Director of American International Group, Inc. and Director of The Adams Express Company (investment company).
Susan C. Schwab 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 46	Director	One Year	Since 2000	Dean of the School of Public Affairs at the University of Maryland, College Park. Formerly Director of Corporate Business Development at Motorola, Inc.	Two	Director of The Adams Express Company (investment company) and Calpine Corp. (energy).
Robert J. M. Wilson 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 81	Director	One Year	Since 1975	Retired President of the Corporation and retired President of The Adams Express Company.	Two	Director of The Adams Express Company (investment company).
Interested Director						
Douglas G. Ober 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 55	Director, Chairman and CEO	One Year	Director Since 1989; Chairman of the Board Since 1991	Chairman & CEO of the Corporation and The Adams Express Company.	Two	Director of The Adams Express Company (investment company).

Petroleum & Resources Corporation
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