

L E T T E R   T O   S T O C K H O L D E R S

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We submit herewith the audited financial statements of the Corporation for the six months ended June 30, 2003. In addition, there is the report of independent auditors, a schedule of investments, along with other financial information.

Net assets of the Corporation at June 30, 2003 were \$22.36 per share on 21,311,767 shares outstanding, compared with \$20.98 per share at December 31, 2002 on 21,510,067 shares outstanding. On March 1, 2003, a distribution of \$0.13 per share was paid, consisting of \$0.09 from 2002 long-term capital gain, \$0.03 from 2002 investment income and \$0.01 from 2003 investment income, all taxable in 2003. A 2003 income dividend of \$0.13 per share was paid on June 1, 2003, and another \$0.13 investment income dividend has been declared to shareholders of record August 15, 2003, payable September 1, 2003.

Net investment income for the six months ended June 30, 2003 amounted to \$3,942,668, compared with \$4,655,158 for the same period in 2002. These earnings are equal to \$0.18 and \$0.22 per share on the average number of shares outstanding during each period.

Net capital gain realized on investments for the six months ended June 30, 2003 amounted to \$3,283,072, the equivalent of \$0.15 per share.

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

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

By order of the Board of Directors,



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

July 18, 2003

**STATEMENT OF ASSETS AND LIABILITIES**

*June 30, 2003*

**Assets**

Investments\* at value:

Common stocks and convertible securities (cost \$265,867,709)	\$412,180,065	
Short-term investments (cost \$63,360,838)	63,360,838	
Securities lending collateral (cost \$6,207,374)	6,207,374	\$481,748,277

Cash		197,036
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Receivables:

Investment securities sold		592,294
Dividends and interest		495,713

Prepaid expenses and other assets		1,339,551
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<i>Total Assets</i>		484,372,871
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**Liabilities**

Investment securities purchased		162,999
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Open written option contracts at value (proceeds \$227,414)		262,362
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Obligations to return securities lending collateral		6,207,374
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Accrued expenses		1,195,444
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<i>Total Liabilities</i>		7,828,179
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<b>Net Assets</b>		<b>\$476,544,692</b>
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**Net Assets**

Common Stock at par value \$1.00 per share, authorized 50,000,000 shares; issued and outstanding 21,311,767 shares		\$ 21,311,767
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Additional capital surplus		303,968,013
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Undistributed net investment income		1,779,431
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Undistributed net realized gain on investments		3,208,073
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Unrealized appreciation on investments		146,277,408
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<b>Net Assets Applicable to Common Stock</b>		<b>\$476,544,692</b>
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<b>Net Asset Value Per Share of Common Stock</b>		<b>\$22.36</b>
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\* See Schedule of Investments on pages 8 and 9.

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, 2003*

**Investment Income**

Income:	
Dividends	\$ 5,403,378
Interest and other income	452,108
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<i>Total income</i>	5,855,486
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Expenses:	
Investment research	830,427
Administration and operations	524,534
Directors' fees	109,000
Reports and stockholder communications	147,449
Transfer agent, registrar and custodian expenses	84,198
Auditing and accounting services	38,128
Legal services	10,262
Occupancy and other office expenses	93,419
Travel, telephone and postage	32,352
Other	43,049
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<i>Total expenses</i>	1,912,818
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<b>Net Investment Income</b>	3,942,668
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<b>Realized Gain and Change in Unrealized Appreciation on Investments</b>	
Net realized gain on security transactions	3,283,072
Change in unrealized appreciation on investments	27,496,801
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<b>Net Gain on Investments</b>	30,779,873
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<b>Change in Net Assets Resulting from Operations</b>	\$34,722,541

*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, 2003	Year Ended December 31, 2002
<b>From Operations:</b>		
Net investment income	\$ 3,942,668	\$ 8,983,077
Net realized gain on investments	3,283,072	14,332,921
Change in unrealized appreciation on investments	27,496,801	(82,017,470)
<i>Change in net assets resulting from operations</i>	34,722,541	(58,701,472)
<b>Dividends to Stockholders from:</b>		
Net investment income	(3,638,128)	(9,069,217)
Net realized gain from investment transactions	(1,934,492)	(14,302,830)
<i>Decrease in net assets from distributions</i>	(5,572,620)	(23,372,047)
<b>From Capital Share Transactions:</b>		
Value of shares issued in payment of distributions	—	9,954,365
Cost of shares purchased (Note 4)	(3,880,692)	(3,097,181)
<i>Change in net assets from capital share transactions</i>	(3,880,692)	6,857,184
<b>Total Change in Net Assets</b>	25,269,229	(75,216,335)
<b>Net Assets:</b>		
Beginning of period	451,275,463	526,491,798
End of period (including undistributed net investment income of \$1,779,431 and \$1,474,891, respectively)	\$476,544,692	\$451,275,463

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

## NOTES TO FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

### 2. FEDERAL INCOME TAXES

The Corporation's policy is to distribute all of its taxable income to its shareholders in compliance with the requirements of the Internal Revenue Code applicable to regulated investment companies. Therefore, no federal income tax provision is required. For federal income tax purposes, the identified cost of securities, including options, at June 30, 2003 was \$335,668,460, and net unrealized appreciation aggregated \$146,307,231, of which the related gross unrealized appreciation and depreciation were \$176,102,378 and \$29,795,147, respectively.

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

### 3. INVESTMENT TRANSACTIONS

Purchases and sales of portfolio securities, other than options and short-term investments, during the six months ended June 30, 2003 were \$9,346,377 and \$28,301,885, respectively. Options may be written (sold) or purchased by the Corporation. The Corporation, as writer of an option,

bears the market risk of an unfavorable change in the price of the security underlying the written option. The risk associated with purchasing an option is limited to the premium originally paid. A schedule of outstanding option contracts as of June 30, 2003 can be found on page 10.

Transactions in written covered call and collateralized put options during the six months ended June 30, 2003 were as follows:

	Covered Calls		Collateralized Puts	
	Contracts	Premiums	Contracts	Premiums
Options outstanding, December 31, 2002	625	\$ 58,228	300	\$ 32,392
Options written	1,550	197,266	1,400	190,792
Options terminated in closing purchase transactions	—	—	(100)	(10,143)
Options expired	(825)	(81,427)	(1,100)	(159,694)
Options outstanding, June 30, 2003	1,350	174,067	500	53,347

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

### 4. CAPITAL STOCK

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

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

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

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

	Shares		Amount	
	Six months ended June 30, 2003	Year ended December 31, 2002	Six months ended June 30, 2003	Year ended December 31, 2002
Shares issued in payment of dividends	—	521,854	\$ —	\$ 9,954,365
Shares purchased (at a weighted average discount from net asset value of 8.3% and 8.9%, respectively)	(198,300)	(159,350)	(3,880,692)	(3,097,181)
Net change	(198,300)	362,504	\$(3,880,692)	\$ 6,857,184

The cost of the 213,200 shares of Common Stock held by the Corporation at June 30, 2003 and of the 14,900 shares of Common Stock held at December 31, 2002 amounted to \$4,165,909 and \$285,217 on each respective date.

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

Under the plan, the exercise price of the options and related stock appreciation rights is reduced by the per share amount of capital gain paid by the Corporation during subsequent years. At the beginning of 2003, there were 152,012 options outstanding at a weighted average exercise price of \$18.0662 per share. During the six months ended June 30, 2003, the Corporation granted options including stock appreciation rights for 21,258 shares of Common Stock with an exercise price of \$19.285. During the six months ended June 30, 2003, stock appreciation rights relating to 10,514 stock option shares were exercised at a weighted average market price of \$20.0289 per share and the stock options relating to these rights with a weighted average exercise price of \$10.6666 per share were cancelled. Stock options and stock appreciation rights relating to 25,943 shares, with a weighted average exercise price of \$19.4609, were cancelled. At June 30, 2003, there were outstanding exercisable options to purchase 46,232 common shares at \$9.0317-\$25.2538 per share (weighted average price of \$17.3058) and unexercisable options to purchase 90,581 common shares at \$11.6367-\$25.2538 per share (weighted average price of \$19.0276). The weighted average remaining contractual life of outstanding exercisable and unexercisable options was 5.0377 years and 6.6797 years, respectively. The total compensation expense for stock options and stock appreciation rights recognized for the six months ended June 30, 2003 was \$99,616. At June 30, 2003, there were 279,614 shares available for future option grants.

#### 5. RETIREMENT PLANS

The Corporation provides retirement benefits for its employees under a non-contributory qualified defined benefit pension plan. The benefits are based on years of service and compensation during the last five years of employment. The Corporation's current funding policy is to contribute annually to the plan only those amounts that can be deducted for federal income tax purposes. As of June 30, 2003, the plan assets, consisting primarily of investments in individual stocks, bonds and mutual funds were \$3,349,405. In determining the actuarial present value of the projected benefit obligation, the interest rate used for the weighted average discount rate was 6.75%, the expected rate of annual salary increases was 7.0%, and the long-term expected rate of return on plan assets was 8.0%. The projected benefit obligation as of June 30, 2003 was \$3,854,538. Prepaid pension cost included in other assets at June 30, 2003 was \$900,956.

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 June 30, 2003 for employees and former employees of the Corporation was \$1,052,222. Aggregate remuneration paid or accrued during the six months ended June 30, 2003 to key employees and directors amounted to \$655,563.

#### 7. PORTFOLIO SECURITIES LOANED

The Corporation makes loans of securities to brokers, secured by cash deposits, U.S. Government securities, or bank letters of credit. The Corporation accounts for securities lending transactions as secured financing and receives compensation in the form of fees or retains a portion of interest on the investment of any cash received as collateral. The Corporation also continues to receive interest or dividends on the securities loaned. The loans are secured at all times by collateral of at least 102% of the fair value of the securities loaned plus accrued interest. Gain or loss in the fair value of securities loaned that may occur during the term of the loan will be for the account of the Corporation. At June 30, 2003, the Corporation had securities on loan of \$5,857,056 and held collateral of \$6,207,374, consisting of repurchase agreements.

**FINANCIAL HIGHLIGHTS**

	Six Months Ended		Year Ended December 31				
	June 30, 2003	June 30, 2002	2002	2001	2000	1999	1998
	<b>Per Share Operating Performance*</b>						
Net asset value, beginning of period	\$20.98	\$24.90	\$24.90	\$32.69	\$26.32	\$22.87	\$27.64
Net investment income	0.18	0.22	0.42	0.49	0.37	0.48	0.55
Net realized gains and change in un-realized appreciation (depreciation) and other changes	1.44	(0.31)	(3.20)	(6.81)	7.67	4.67	(3.73)
Total from investment operations	1.62	(0.09)	(2.78)	(6.32)	8.04	5.15	(3.18)
Less distributions							
Dividends from net investment income	(0.17)	(0.17)	(0.43)	(0.43)	(0.39)	(0.48)	(0.52)
Distributions from net realized gains	(0.09)	(0.09)	(0.68)	(1.07)	(1.35)	(1.07)	(1.01)
Total distributions	(0.26)	(0.26)	(1.11)	(1.50)	(1.74)	(1.55)	(1.53)
Capital share repurchases	0.02	—	0.01	0.06	0.28	0.01	—
Reinvestment of distributions	—	—	(0.04)	(0.03)	(0.21)	(0.16)	(0.06)
Total capital share transactions	0.02	—	(0.03)	0.03	0.07	(0.15)	(0.06)
Net asset value, end of period	\$22.36	\$24.55	\$20.98	\$24.90	\$32.69	\$26.32	\$22.87
Per share market price, end of period	\$20.60	\$22.77	\$19.18	\$23.46	\$27.31	\$21.50	\$20.42
<b>Total Investment Return</b>							
Based on market price	8.8%	(1.9)%	(13.7)%	(8.7)%	36.1%	13.3%	(10.0)%
Based on net asset value	7.9%	(0.3)%	(11.1)%	(19.0)%	33.1%	23.8%	(11.1)%
<b>Ratios/Supplemental Data</b>							
Net assets, end of period (in 000's)	\$476,545	\$519,128	\$451,275	\$526,492	\$688,173	\$565,075	\$474,821
Ratio of expenses to average net assets	0.84%†	0.46%†	0.49%	0.35%	0.59%	0.43%	0.31%
Ratio of net investment income to average net assets	1.74%†	1.76%†	1.84%	1.67%	1.24%	1.86%	2.13%
Portfolio turnover	4.68%†	9.71%†	9.69%	6.74%	7.68%	11.89%	12.70%
Number of shares outstanding at end of period (in 000's)*	21,312	21,148	21,510	21,148	21,054	21,471	20,762

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

†Ratios presented on an annualized basis.

**SCHEDULE OF INVESTMENTS**

June 30, 2003

	Shares	Value (A)		Shares	Value (A)
<b>Stocks And Convertible Securities — 86.5%</b>					
<b>Energy — 75.3%</b>					
<b>Internationals — 26.8%</b>					
New Jersey Resources Corp.	277,500	\$ 9,851,250			
Northwestern Corp. (B)	16,500	33,000			
Questar Corp.	268,000	8,969,960			
TECO Energy, Inc. (C)	200,000	2,398,000			
Williams Companies, Inc. 9.0% FELINE PACS due 2005	120,000	1,482,000			
Williams Companies, Inc.	200,000	1,580,000			
		83,437,085			
<b>Services — 12.4%</b>					
Baker Hughes, Inc.	130,000	4,364,100			
BJ Services Co. (B)	380,000	14,196,800			
Core Laboratories N.V. (B) (C)	75,000	810,000			
GlobalSantaFe Corp.	200,000	4,668,000			
Grant Prideco Inc. (B)	308,000	3,619,000			
Nabors Industries Ltd. (B)	125,000	4,943,750			
Noble Corp. (B)	135,000	4,630,500			
Schlumberger Ltd.	225,000	10,703,250			
Transocean Inc. (B)	110,000	2,416,700			
Weatherford International, Ltd. (B)	205,000	8,589,500			
		58,941,600			
<b>Basic Industries — 11.2%</b>					
<b>Basic Materials &amp; Other — 8.3%</b>					
Albemarle Corp.	200,000	5,594,000			
Arch Coal Inc. (C)	250,000	5,745,000			
General Electric Co.	350,000	10,038,000			
Ingersoll-Rand Co. Ltd.	100,000	4,732,000			
Philadelphia Suburban Corp.	305,000	7,435,900			
Rohm & Haas Co.	200,000	6,206,000			
		39,750,900			
<b>Paper and Forest Products — 2.9%</b>					
Boise Cascade Corp. 7.5% ACES due 2004	51,000	2,103,240			
Boise Cascade Corp.	205,000	4,899,500			
MeadWestvaco Corp.	60,000	1,482,000			
Temple-Inland Inc.	120,000	5,149,200			
		13,633,940			
<b>Total Stocks And Convertible Securities</b>					412,180,065
(Cost \$265,867,709) (D)					



**SCHEDULE OF INVESTMENTS (CONTINUED)**

June 30, 2003

	Prin. Amt.	Value (A)		Prin. Amt.	Value (A)
<b>Short-Term Investments — 13.3%</b>					
<i>U.S. Government Obligations — 1.5%</i>					
U.S. Treasury Bills, 0.95%, due 8/21/03	\$ 7,000,000	\$ 6,990,678			
<i>Certificates of Deposit — 2.1%</i>					
Mercantile-Safe Deposit & Trust Co., 1.00%, due 7/24/03-7/25/03	10,000,000	10,000,000			
<i>Commercial Paper — 9.7%</i>					
American General Finance Corp., 1.14%, due 7/3/03	5,000,000	4,999,683			
Cargill, Inc., 1.07%, due 7/10/03	2,600,000	2,599,305			
ChevronTexaco Funding Corp., 1.15%, due 7/1/03	900,000	900,000			
Chevron UK, 1.20-1.22%, due 7/8/03-7/11/03	4,100,000	4,098,785			
Coca-Cola Enterprises, Inc., 0.99-1.22%, due 7/1/03-7/22/03	5,000,000	4,997,767			
GMAC MINT, 1.23%, due 7/15/03	3,050,000	3,048,541			
GMAC New Center Asset Trust, 1.03%, due 7/29/03	1,950,000	1,948,438			
General Electric Capital Corp., 0.95-1.23%, due 7/15/03-7/31/03	4,255,000	4,252,183			
Marsh & McLennan Companies, Inc., 1.18%, due 7/9/03	2,550,000	2,549,331			
			New Jersey Natural Gas, 1.05%, due 7/21/03	\$ 2,885,000	\$ 2,883,317
			Toyota Motor Credit Corp., 1.16%, due 7/8/03	5,000,000	4,998,872
			Verizon Network Funding Inc., 1.02-1.18%, due 7/10/03-7/17/03	4,100,000	4,098,146
			Wells Fargo & Company 1.01%, due 7/31/03	5,000,000	4,995,792
					46,370,160
			<b>Total Short-Term Investments</b>		
			(Cost \$63,360,838)		63,360,838
			<b>Investments of Proceeds from Security Lending — 1.3%</b>		
			CS First Boston, repurchase agreement, 1.35%, due 7/1/03		2,000,066
			JP Morgan Securities, repurchase agreement, 1.19%, 7/1/03		4,207,308
			<b>Total Investments of Proceeds from Security Lending</b>		6,207,374
			(Cost \$6,207,374)		
			<b>Total Investments — 101.1%</b>		481,748,277
			(Cost \$335,435,921)		
			Cash, receivables and other assets, less liabilities — (1.1)%		(5,203,585)
			<b>Net Assets—100.0%</b>		<u>\$476,544,692</u>

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) Presently non-dividend paying.
- (C) Some or all of these securities are on loan. See note 7 to financial statements.
- (D) The aggregate market value of stocks held in escrow at June 30, 2003 covering open call option contracts written was \$6,886,095. In addition, the aggregate market value of securities segregated by the custodian required to collateralize open put option contracts written was \$1,987,500.

**SCHEDULE OF OUTSTANDING OPTION CONTRACTS**

*June 30, 2003*

Contracts (100 shares each)	Security	Strike Price	Contract Expiration Date	Appreciation/ (Depreciation)
<b>COVERED CALLS</b>				
150	Amerada Hess Corp.	\$ 55	Nov 03	\$ (3,326)
100	Apache Corp.	65	Jul 03	5,499
100	Apache Corp.	70	Jul 03	7,100
150	Apache Corp.	71.38	Jul 03	19,537
100	Devon Energy Corp.	55	Oct 03	(8,001)
100	Murphy Oil Corp.	50	Jul 03	(21,500)
150	Murphy Oil Corp.	50	Oct 03	(59,251)
100	Murphy Oil Corp.	55	Oct 03	(14,400)
100	Nabors Industries Ltd.	47.50	Sep 03	8,999
200	Nabors Industries Ltd.	50	Sep 03	15,999
100	Pioneer Natural Resources Co.	25	Sep 03	(13,951)
<u>1,350</u>				<u>(63,295)</u>
<b>COLLATERALIZED PUTS</b>				
50	Albemarle Corp.	22.50	Dec 03	2,550
100	ConocoPhillips	47.50	Aug 03	7,599
100	ConocoPhillips	50	Aug 03	7,050
150	ConocoPhillips	45	Nov 03	10,649
50	ConocoPhillips	50	Nov 03	(1)
50	Schlumberger Ltd.	45	Aug 03	500
<u>500</u>				<u>28,347</u>
				<u>\$(34,948)</u>

**CHANGES IN PORTFOLIO SECURITIES**

*During the Three Months Ended June 30, 2003  
(unaudited)*

	Shares		
	Additions	Reductions	Held June 30, 2003
Arch Coal Inc. ....	10,000		250,000
ConocoPhillips ....	59,690		200,000
Devon Energy Corp. ....	198,720 <sup>(1)</sup>	80,000	198,720
Schlumberger Ltd. ....	35,000		225,000
Anadarko Petroleum Corp. ....		195,000	55,000
Core Laboratories N.V. ....		134,400	75,000
Engelhard Corp. ....		124,900	—
Equitable Resources Inc. ....		61,000	300,000
Nabors Industries, Ltd. ....		55,000	125,000
Northwestern Corp. ....		183,500	16,500
Ocean Energy, Inc. ....		480,000 <sup>(1)</sup>	—
Transocean Inc. ....		90,000	110,000

<sup>(1)</sup> Received .414 shares for each share of Ocean Energy, Inc. held.

R E P O R T O F I N D E P E N D E N T A U D I T O R S

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**To the Board of Directors and Stockholders of  
Petroleum & Resources Corporation:**

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Petroleum & Resources Corporation (hereafter referred to as the "Corporation") at June 30, 2003, 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 June 30, 2003 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

**PricewaterhouseCoopers LLP**  
Baltimore, Maryland  
July 10, 2003

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

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

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<b>December 31</b>	<b>Value of Net Assets</b>	<b>Shares Outstanding*</b>	<b>Net Asset Value per Share*</b>	<b>Dividends from Net Investment Income per Share*</b>	<b>Distributions from Net Realized Gains per Share*</b>
1993 .....	\$355,836,592	18,010,007	\$19.76	\$.55	\$ .87
1994 .....	332,279,398	18,570,450	17.89	.61	.79
1995 .....	401,404,971	19,109,075	21.01	.58	.81
1996 .....	484,588,990	19,598,729	24.73	.55	.88
1997 .....	556,452,549	20,134,181	27.64	.51	1.04
1998 .....	474,821,118	20,762,063	22.87	.52	1.01
1999 .....	565,075,001	21,471,270	26.32	.48	1.07
2000 .....	688,172,867	21,053,644	32.69	.39	1.35
2001 .....	526,491,798	21,147,563	24.90	.43	1.07
2002 .....	451,275,463	21,510,067	20.98	.43	.68
June 30, 2003 .....	476,544,692	21,311,767	22.36	.30†	.09

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

† Paid or declared.

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**Common Stock**

Listed on the New York Stock Exchange  
and the Pacific Exchange

**Petroleum & Resources Corporation**

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

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

*Website:* www.peteres.com

*E-mail:* contact@peteres.com

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

*Independent Auditors:* PricewaterhouseCoopers LLP

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

### DIVIDEND PAYMENT SCHEDULE

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

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

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

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

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

Initial Enrollment	\$7.50
<i>A one-time fee for new accounts who are not currently registered holders.</i>	
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 BuyDIRECT as well as an enrollment form may be obtained by contacting The Bank of New York.

### For Non-Registered Shareholders

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

### The Corporation

#### Petroleum & Resources Corporation

Lawrence L. Hooper, Jr.  
Vice President, Secretary and General Counsel  
Seven St. Paul Street, Suite 1140,  
Baltimore, MD 21202  
(800) 638-2479

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

### The Transfer Agent

#### The Bank of New York

**Address Shareholder Inquiries to:**  
Shareholder Relations Department  
P.O. Box 11258 Church Street Station  
New York, NY 10286  
(866) 723-8330

**Website:** [www.stockbny.com](http://www.stockbny.com)  
**E-mail:** [Shareowners@bankofny.com](mailto:Shareowners@bankofny.com)

**Send Certificates for Transfer  
and Address Changes to:**  
Receive and Deliver Department  
P.O. Box 11002 Church Street Station  
New York, NY 10286

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

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

## PETROLEUM & RESOURCES CORPORATION

### Board of Directors

Enrique R. Arzac <sup>2,4</sup>	Douglas G. Ober <sup>1</sup>
Daniel E. Emerson <sup>1,3</sup>	Landon Peters <sup>2,3</sup>
Edward J. Kelly, III <sup>1,4</sup>	John J. Roberts <sup>1,2</sup>
Thomas H. Lenagh <sup>1,4</sup>	Susan C. Schwab <sup>1,3</sup>
W.D. MacCallan <sup>3,4</sup>	Robert J.M. Wilson <sup>1,3</sup>
W. Perry Neff <sup>2,4</sup>	

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

### Officers

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

### Stock Data

Price (6/30/03)	\$20.60
Net Asset Value (6/30/03)	\$22.36
Discount:	7.9%

New York Stock Exchange and Pacific Exchange  
ticker symbol: PEO

NASDAQ Mutual Fund Quotation Symbol: XPEOX

Newspaper stock listings are generally under the  
abbreviation: PetRs

### Distributions in 2003

From Investment Income (paid or declared)	\$0.30
From Net Realized Gains	0.09
Total	<u>\$0.39</u>

### 2003 Dividend Payment Dates

March 1, 2003  
June 1, 2003  
September 1, 2003  
December 27, 2003\*

\*Anticipated

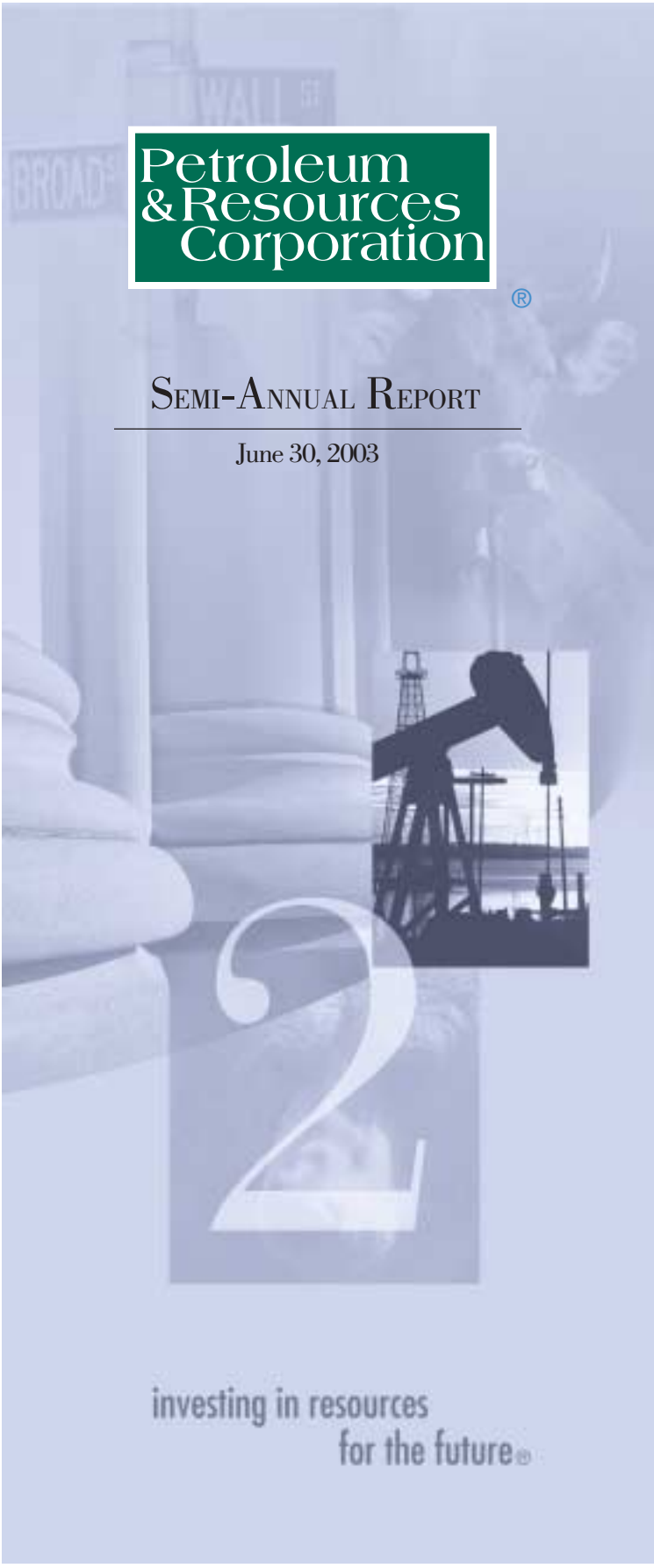


Petroleum  
& Resources  
Corporation

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## SEMI-ANNUAL REPORT

June 30, 2003



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for the future®