

We submit herewith the financial statements of the Corporation for the six months ended June 30, 2006. In addition, there is 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, 2006 were \$38.92 per share on 21,183,656 shares outstanding, compared with \$35.24 per share at December 31, 2005 on 21,621,072 shares outstanding. On March 1, 2006, a distribution of \$0.13 per share was paid, consisting of \$0.07 from 2005 long-term capital gain, \$0.03 from 2005 short-term capital gain and \$0.03 from 2005 investment income, all taxable in 2006. A 2006 investment income dividend of \$0.13 per share was paid on June 1, 2006, and another \$0.13 per share investment income dividend has been declared to shareholders of record August 15, 2006, payable on September 1, 2006.

Net investment income for the six months ended June 30, 2006 amounted to \$5,219,727, compared with \$4,338,847 for the same period in 2005. These earnings are equal to \$0.25 and \$0.20 per share.

Net capital gain realized on investments for the six months ended June 30, 2006 amounted to \$39,877,100, the equivalent of \$1.88 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 website (www.peteres.com). Also available at the website are a brief history of the Corporation, historical financial information, and other useful content. Further information regarding shareholder services is located on page 15 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,

A handwritten signature in black ink, appearing to read 'Douglas G. Ober', with a long horizontal flourish extending to the right.

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

July 14, 2006

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2006

Assets

Investments* at value:

Common stocks and convertible securities (cost \$328,230,601)	\$795,136,367	
Short-term investments (cost \$25,289,631)	25,289,631	
Securities lending collateral (cost \$41,638,110)	41,638,110	\$862,064,108
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Cash		279,395
Receivables:		
Investment securities sold		6,023,413
Dividends and interest		747,705
Prepaid pension cost		819,064
Prepaid expenses and other assets		478,559
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<i>Total Assets</i>		870,412,244

Liabilities

Investment securities purchased	1,674,487	
Open written option contracts at value (proceeds \$484,412)	522,970	
Obligations to return securities lending collateral	41,638,110	
Accrued expenses	2,098,093	
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<i>Total Liabilities</i>		45,933,660
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Net Assets		\$824,478,584

Net Assets

Common Stock at par value \$1.00 per share, authorized 50,000,000 shares; issued and outstanding 21,183,656 shares (includes 16,109 restricted shares, restricted stock units for 4,800 shares, and deferred stock units for 584 shares) (Note 6)	\$ 21,183,656	
Additional capital surplus	295,301,156	
Unearned compensation — restricted stock awards (Note 6)	(577,674)	
Undistributed net investment income	1,910,775	
Undistributed net realized gain on investments	39,793,463	
Unrealized appreciation on investments	466,867,208	
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Net Assets Applicable to Common Stock		\$824,478,584
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Net Asset Value Per Share of Common Stock		\$38.92

* 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, 2006

Investment Income

Income:		
Dividends		\$ 6,872,709
Interest and other income		496,699
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<i>Total income</i>		7,369,408
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Expenses:		
Investment research		880,094
Administration and operations		551,843
Directors' fees		200,116
Reports and stockholder communications		126,863
Transfer agent, registrar and custodian expenses		79,541
Auditing and accounting services		45,758
Legal services		31,472
Occupancy and other office expenses		147,378
Travel, telephone and postage		40,705
Other		45,911
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<i>Total expenses</i>		2,149,681
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Net Investment Income		5,219,727
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Realized Gain and Change in Unrealized Appreciation on Investments		
Net realized gain on security transactions		39,877,100
Change in unrealized appreciation on investments		38,055,863
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Net Gain on Investments		77,932,963
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Change in Net Assets Resulting from Operations		\$83,152,690

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, 2006	Year Ended December 31, 2005
From Operations:		
Net investment income	\$ 5,219,727	\$ 11,391,783
Net realized gain on investments	39,877,100	26,239,852
Change in unrealized appreciation on investments	38,055,863	153,388,454
<i>Change in net assets resulting from operations</i>	83,152,690	191,020,089
Distributions to Stockholders from:		
Net investment income	(3,415,584)	(12,030,248)
Net realized gain from investment transactions	(2,158,550)	(25,924,473)
<i>Decrease in net assets from distributions</i>	(5,574,134)	(37,954,721)
From Capital Share Transactions:		
Value of shares issued in payment of distributions	5,722	14,748,314
Cost of shares purchased (Note 4)	(15,183,841)	(24,891,727)
Deferred compensation (Notes 4,6)	164,495	104,296
<i>Change in net assets from capital share transactions</i>	(15,013,624)	(10,039,117)
Total Increase in Net Assets	62,564,932	143,026,251
Net Assets:		
Beginning of period	761,913,652	618,887,401
End of period (including undistributed net investment income of \$1,910,775 and \$106,632, respectively)	\$824,478,584	\$761,913,652

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

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.

1. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

2. FEDERAL INCOME TAXES

The Corporation's policy is to distribute all of its taxable income to its shareholders in compliance with the requirements of the Internal Revenue Code applicable to regulated investment companies. Therefore, no federal income tax provision is required. For federal income tax purposes, the identified cost of securities at June 30, 2006 was \$395,128,519 and net unrealized appreciation aggregated \$466,935,589, of which the related gross unrealized appreciation and depreciation were \$469,716,003 and \$2,780,414, respectively.

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

3. INVESTMENT TRANSACTIONS

The Corporation's investment decisions are made by a committee of management, and recommendations to that committee are made by the research staff.

Purchases and sales of portfolio securities, other than options and short-term investments, during the six months ended June 30, 2006 were \$48,677,573 and \$74,249,686, 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, 2006 can be found on page 12.

Transactions in written covered call and collateralized put options during the six months ended June 30, 2006 were as follows:

	Covered Calls		Collateralized Puts	
	Contracts	Premiums	Contracts	Premiums
Options outstanding, December 31, 2005	1,940	\$ 292,777	1,050	\$ 129,891
Options written	4,449	478,630	4,370	512,860
Options terminated in closing purchase transactions	(250)	(61,248)	(805)	(96,035)
Options expired	(3,152)	(353,637)	(2,035)	(229,447)
Options exercised	(1,098)	(160,730)	(200)	(28,649)
Options outstanding, June 30, 2006	1,889	\$ 195,792	2,380	\$ 288,620

4. CAPITAL STOCK

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

On December 27, 2005, the Corporation issued 438,416 shares of its Common Stock at a price of \$33.64 per share (the average market price on December 12, 2005) to stockholders of record on November 22, 2005 who elected to take stock in payment of the year-end distribution from 2005 capital gain and investment income.

During 2006, the Corporation issued 164 shares of its Common Stock at a weighted average price of \$33.67 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 2006 and 2005 were as follows:

	Shares		Amount	
	Six months ended June 30, 2006	Year ended December 31, 2005	Six months ended June 30, 2006	Year ended December 31, 2005
Shares issued in payment of dividends	164	438,416	\$ 5,722	\$ 14,748,314
Shares purchased (at a weighted average discount from net asset value of 9.4% and 8.1%, respectively)	(454,700)	(806,050)	(15,183,841)	(24,891,727)
Net share activity under the 2005 Equity Incentive Compensation Plan	17,119	9,030	164,495	104,296
Net change	(437,417)	(358,604)	\$(15,013,624)	\$(10,039,117)

5. RETIREMENT PLANS

The Corporation's qualified defined benefit pension plan covers all employees with at least one year of service. In addition, the Corporation has a nonqualified defined benefit plan which provides eligible employees with retirement benefits to supplement the qualified plan. Benefits are based on length of service and compensation during the last five years of employment. The Corporation's policy is to contribute annually to the plans those amounts that can be deducted for federal income tax purposes, plus additional amounts as the Corporation deems appropriate in order to provide assets sufficient to meet benefits to be paid to plan participants. During the six months ended June 30, 2006, the Corporation contributed \$15,604 to the plans and will contribute an additional \$15,604 to the plans during the remainder of 2006. Any further contribution cannot be determined with certainty until certain pension reform legislation, pending in Congress, is passed. Such a contribution, if any, will not exceed \$625,000.

The following table aggregates the components of the plans' net periodic pension cost for the six months ended June 30, 2006.

Service Cost	\$ 167,438
Interest Cost	163,996
Expected return on plan assets	(156,096)
Amortization of prior service cost	18,859
Amortization of net loss	112,681
Net periodic pension cost	\$ 306,878

The Corporation also sponsors a defined contribution plan that covers substantially all employees. For the six months ended June 30, 2006, the Corporation expensed contributions of \$50,994. The Corporation does not provide postretirement medical benefits.

6. STOCK-BASED COMPENSATION

The Stock Option Plan adopted in 1985 ("1985 Plan") permits the issuance of stock options and stock appreciation rights for the purchase of up to 895,522 shares of the Corporation's Common Stock at the fair market value on the date of grant. The exercise price of the options and related stock appreciation rights is reduced by the per share amount of capital gains paid by the Corporation during subsequent years. Options are exercisable beginning not less than one year after the date of grant and stock appreciation rights are exercisable beginning not less than two years after the date of grant. The stock appreciation rights allow the holders to surrender their rights to exercise their options and receive cash or shares in an amount equal to the difference between the option exercise price and the fair market value of the Common Stock at the date of surrender. All options terminate 10 years from the date of grant if not exercised. With the adoption of the 2005 Equity Incentive Compensation Plan at the 2005 Annual Meeting, no further grants will be made under the 1985 Plan, although unexercised awards granted in 2004 and prior years remain outstanding.

A summary of option activity under the 1985 Plan as of June 30, 2006, and changes during the period then ended is presented below:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
Outstanding at December 31, 2005	103,997	\$18.24	5.07
Exercised	(5,186)	14.90	
Cancelled	(4,474)	20.34	
Outstanding at June 30, 2006	94,337	\$18.22	4.57
Exercisable at June 30, 2006	44,300	\$17.69	3.92

The options outstanding as of June 30, 2006 are set forth below:

Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
\$12.50-\$14.99	14,398	\$13.11	1.74
\$15.00-\$17.49	29,615	16.29	3.96
\$17.50-\$19.99	18,583	19.45	5.50
\$20.00-\$22.49	31,741	21.63	5.90
Outstanding at June 30, 2006	94,337	\$18.22	4.57

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, 2006 was \$146,623.

The 2005 Equity Incentive Compensation Plan ("2005 Plan") permits the grant of stock options, restricted stock awards and other stock incentives to key employees and all non-employee directors. The 2005 Plan provides for the issuance of up to 872,639 shares of the Corporation's Common Stock, 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. 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 were 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, 2006 is 846,163 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, 2006, and changes during the period then ended is presented below:

Awards	Shares/ Units	Weighted Average Grant-Date Fair Value
Balance at December 31, 2005	8,630	\$28.35
Granted:		
Restricted stock	13,025	34.32
Restricted stock units	4,000	33.21
Deferred stock units	584	33.63
Vested & issued	(4,260)	28.06
Forfeited	(486)	28.06
Balance at June 30, 2006 (includes 13,025 performance-based awards and 8,468 nonperformance-based awards)	21,493	\$33.08

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, no compensation cost is recognized and any recognized compensation cost is reversed. The total compensation costs for restricted stock granted to employees for the period ended June 30, 2006 were \$81,175. The total compensation costs for restricted stock units granted to non-employee directors for the period ended June 30, 2006 were \$80,533. As of June 30, 2006, there were total unrecognized compensation costs of \$577,674 related to nonvested share-based compensation arrangements granted under the 2005 Plan. Those costs are expected to be recognized over a weighted average period of 1.98 years.

7. EXPENSES

The aggregate remuneration paid during the six months ended June 30, 2006 to officers and directors amounted to \$1,378,329, of which \$233,587 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, 2006, the Corporation had securities on loan of \$40,738,724 and held collateral of \$41,638,110, 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, 2006	June 30, 2005	2005	2004	2003	2002	2001
	Per Share Operating Performance						
Net asset value, beginning of period	\$35.24	\$28.16	\$28.16	\$24.06	\$20.98	\$24.90	\$32.69
Net investment income	0.25	0.20	0.53*	0.41	0.38	0.42	0.49
Net realized gains and increase (decrease) in unrealized appreciation	3.62	4.45	8.29	5.05	3.89	(3.20)	(6.81)
Total from investment operations	3.87	4.65	8.82	5.46	4.27	(2.78)	(6.32)
Less distributions							
Dividends from net investment income	(0.16)	(0.18)	(0.56)	(0.44)	(0.38)	(0.43)	(0.43)
Distributions from net realized gains	(0.10)	(0.08)	(1.22)	(0.88)	(0.81)	(0.68)	(1.07)
Total distributions	(0.26)	(0.26)	(1.78)	(1.32)	(1.19)	(1.11)	(1.50)
Capital share repurchases	0.07	0.04	0.10	0.01	0.02	0.01	0.06
Reinvestment of distributions	—	—	(0.06)	(0.05)	(0.02)	(0.04)	(0.03)
Total capital share transactions	0.07	0.04	0.04	(0.04)	0.00	(0.03)	0.03
Net asset value, end of period	\$38.92	\$32.59	\$35.24	\$28.16	\$24.06	\$20.98	\$24.90
Per share market price, end of period	\$33.99	\$29.95	\$32.34	\$25.78	\$23.74	\$19.18	\$23.46
Total Investment Return							
Based on market price	5.9%	17.2%	32.3%	14.4%	30.8%	(13.7)%	(8.7)%
Based on net asset value	11.3%	16.8%	32.0%	23.3%	21.2%	(11.1)%	(19.0)%
Ratios/Supplemental Data							
Net assets, end of period (in 000's)	\$824,479	\$705,225	\$761,914	\$618,887	\$522,941	\$451,275	\$526,492
Ratio of expenses to average net assets	0.54% †	0.61% †	0.59%	0.56%	0.74%	0.49%	0.35%
Ratio of net investment income to average net assets	1.30% †	1.30% †	1.61%	1.58%	1.75%	1.84%	1.67%
Portfolio turnover	12.46% †	12.61% †	10.15%	13.44%	10.20%	9.69%	6.74%
Number of shares outstanding at end of period (in 000's)	21,184	21,643	21,621	21,980	21,737	21,510	21,148

† Ratios presented on an annualized basis.

* 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.

SCHEDULE OF INVESTMENTS

June 30, 2006

	Shares or Units	Value (A)		Shares or Units	Value (A)
Stocks And Convertible Securities — 96.4%					
Energy — 89.8%				Utilities — 11.8%	
<i>Integrated — 39.4%</i>				AGL Resources Inc.	
Aventine Renewable Energy				170,000	\$ 6,480,400
Holdings, Inc.	40,000	\$ 1,556,000		217,624	6,391,617
BP plc ADR	600,000	41,766,000		400,000	15,364,000
Chevron Corp.	635,000	39,408,100		450,000	15,075,000
ConocoPhillips	556,891	36,493,067		250,000	9,152,500
Exxon Mobil Corp.	1,160,000	71,166,000		200,000	7,028,000
Hess Corp. (B)	195,000	10,305,750		200,000	9,356,000
Holly Corp.	420,000	20,244,000		200,000	16,098,000
Kerr-McGee Corp.	215,294	14,930,639		325,200	1,808,112
Marathon Oil Co.	120,000	9,996,000		450,000	10,512,000
Murphy Oil Corp.	216,500	12,093,690			97,265,629
Royal Dutch Shell plc ADR	275,000	18,419,500		Coals — 0.6%	
Suncor Energy	90,000	7,290,900		30,000	1,271,100
Total S.A. ADR	240,000	15,724,800		80,000	3,737,600
Valero Energy Corp.	355,000	23,614,600			5,008,700
Western Refining Inc.	75,000	1,618,500		Basic Industries — 6.6%	
		324,627,546		<i>Basic Materials & Other — 6.6%</i>	
Exploration & Production — 15.6%				125,000	7,990,000
Apache Corp.	158,200	10,797,150		380,000	8,660,200
Devon Energy Corp.	340,000	20,539,400		6,000	225,900
EOG Resources, Inc. (B)	320,000	22,188,800		157,500	6,552,000
Hugoton Royalty Trust (B)	23,843	708,137		75,000	3,725,250
Newfield Exploration Co. (C)	175,000	8,564,500		454,800	14,990,208
Noble Energy, Inc.	430,000	20,149,800		30,000	2,734,500
Occidental Petroleum Corp.	200,000	20,510,000		200,000	10,024,000
Pioneer Natural					54,902,058
Resources Co.	165,000	7,657,650		Total Stocks And Convertible Securities	
XTO Energy Inc.	400,000	17,708,000		(Cost \$328,230,601) (D)	
		128,823,437			\$795,136,367
Services — 22.4%					
Baker Hughes, Inc.	130,000	10,640,500			
BJ Services Co.	740,000	27,572,400			
GlobalSantaFe Corp.	290,000	16,747,500			
Grant Prideco Inc. (C)	308,000	13,783,000			
Hercules Offshore, Inc. (B)	150,000	5,250,000			
Nabors Industries Ltd. (B)(C)	520,000	17,570,800			
Noble Corp.	200,000	14,884,000			
Precision Drilling Trust (B)	300,000	9,960,000			
Schlumberger Ltd.	560,000	36,461,600			
TODCO (C)	175,000	7,148,750			
Weatherford International,					
Ltd. (C)	493,560	24,490,447			
		184,508,997			

SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2006

	<u>Prin. Amt.</u>	<u>Value (A)</u>		<u>Value (A)</u>
Short-Term Investments — 3.1%			Securities Lending Collateral — 5.1%	
U.S. Government Obligations — 2.1%			Brown Brothers Investment	
U.S. Treasury Bills,			Trust, 5.16%, due 7/3/06	\$ 41,638,110
4.74%, due 8/17/06	\$17,500,000	\$17,391,704		
Time Deposit — 0.0%			Total Securities Lending	
Wachovia Corp.,			Collateral (Cost \$41,638,110)	41,638,110
4.50%, due 7/3/06		112,494		
Commercial Paper — 1.0%			Total Investments — 104.6%	
American General Finance, Inc.,			(Cost \$395,158,342)	862,064,108
5.24-5.25%, due 7/13/06-7/20/06	3,500,000	3,492,760	Cash, receivables, prepaid	
Chevron Funding Co.,			expenses and other	
5.23%, due 7/18/06	2,000,000	1,995,061	assets, less liabilities — (4.6)%	(37,585,524)
General Electric Capital Corp.,			Net Assets — 100.0%	<u>\$824,478,584</u>
5.21%, due 7/6/06	1,300,000	1,299,059		
Toyota Motor Credit Corp.,				
5.21%, due 7/11/06	1,000,000	998,553		
		<u>7,785,433</u>		
Total Short-Term Investments				
(Cost \$25,289,631)		<u>\$25,289,631</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) Some of the shares of this company are on loan. See note 8 to financial statements.
- (C) Presently non-dividend paying.
- (D) The aggregate market value of stocks held in escrow at June 30, 2006 covering open call option contracts written was \$10,244,778. In addition, the aggregate market value of securities segregated by the Corporation's custodian required to collateralize open put option contracts written was \$11,865,000.

HISTORICAL FINANCIAL STATISTICS

<u>December 31</u>	<u>Value of Net Assets</u>	<u>Shares Outstanding*</u>	<u>Net Asset Value per Share*</u>	<u>Dividends from Net Investment Income per Share*</u>	<u>Distributions from Net Realized Gains per Share*</u>
1996	\$484,588,990	19,598,729	\$24.73	\$.55	\$.88
1997	556,452,549	20,134,181	27.64	.51	1.04
1998	474,821,118	20,762,063	22.87	.52	1.01
1999	565,075,001	21,471,270	26.32	.48	1.07
2000	688,172,867	21,053,644	32.69	.39	1.35
2001	526,491,798	21,147,563	24.90	.43	1.07
2002	451,275,463	21,510,067	20.98	.43	.68
2003	522,941,279	21,736,777	24.06	.38	.81
2004	618,887,401	21,979,676	28.16	.44	.88
2005	761,913,652	21,621,072	35.24	.56	1.22
June 30, 2006	824,478,584	21,183,656	38.92	.29†	.10†

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

† Paid or declared.

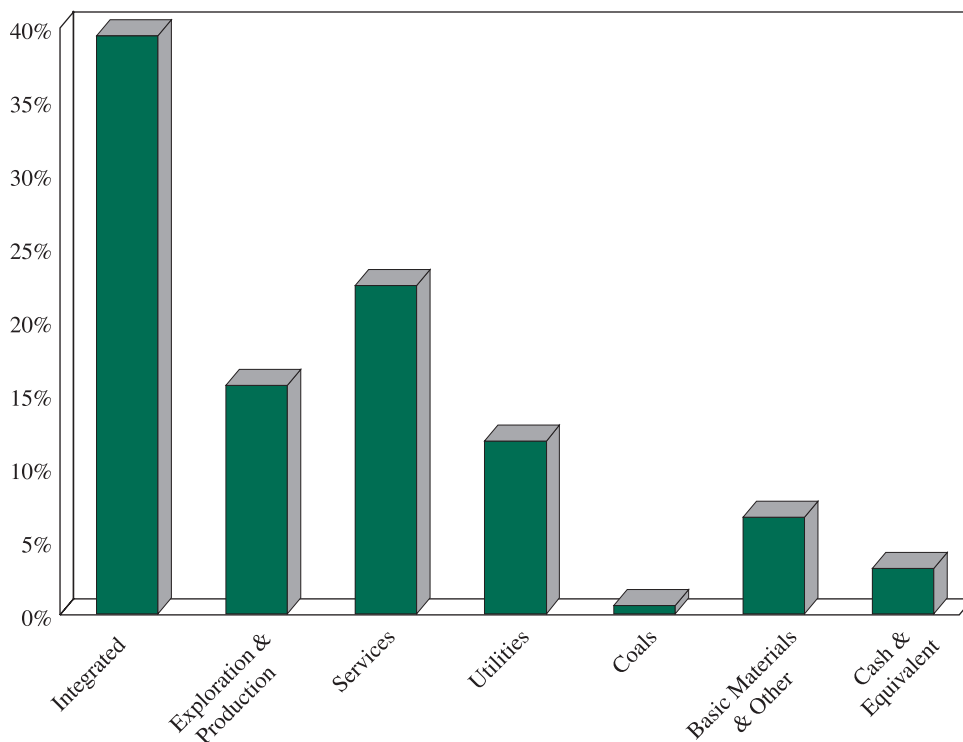
P O R T F O L I O S U M M A R Y

June 30, 2006

TEN LARGEST PORTFOLIO HOLDINGS

	<i>Market Value</i>	<i>% of Net Assets</i>
Exxon Mobil Corp	\$ 71,166,000	8.6
BP plc ADR	41,766,000	5.1
Chevron Corp.	39,408,100	4.8
ConocoPhillips	36,493,067	4.4
Schlumberger Ltd.	36,461,600	4.4
BJ Services Co.	27,572,400	3.3
Weatherford International, Ltd.	24,490,447	3.0
Valero Energy Corp.	23,614,600	2.9
EOG Resources, Inc.	22,188,800	2.7
Devon Energy Corp.	20,539,400	2.5
Total	<u>\$343,700,414</u>	<u>41.7%</u>

SECTOR WEIGHTINGS



SCHEDULE OF OUTSTANDING OPTION CONTRACTS

June 30, 2006

Contracts (100 shares each)	Security	Strike Price	Contract Expiration Date	Appreciation/ (Depreciation)
COVERED CALLS				
59	Air Products and Chemicals, Inc	\$ 70	Sep 06	\$ 3,953
100	Apache Corp.	85	Jul 06	12,199
200	Arch Coal Inc.	45	Jul 06	(2,801)
300	Consol Energy Inc.	45	Oct 06	(166,700)
30	Martin Marietta Materials, Inc.	140	Oct 06	3,810
100	Murphy Oil Corp.	55	Jul 06	(8,801)
200	Newfield Exploration Co.	50	Sep 06	(55,135)
100	Rohm & Haas Co.	55	Oct 06	1,700
500	Total S.A. ADR	75	Aug 06	(25,751)
100	XTO Energy Inc.	45	Aug 06	(7,800)
100	XTO Energy Inc.	50	Aug 06	2,700
100	XTO Energy Inc.	55	Aug 06	13,200
<u>1,889</u>				<u>(229,426)</u>
COLLATERALIZED PUTS				
245	Arch Coal Inc.	30	Jul 06	14,332
100	Baker Hughes, Inc.	55	Jul 06	14,199
75	Baker Hughes, Inc.	60	Jul 06	8,400
100	Florida Rock Industries Inc.	45	Sep 06	(7,800)
100	Grant Prideco Inc.	35	Jul 06	12,699
200	Marathon Oil Co.	60	Jul 06	27,399
75	Marathon Oil Co.	65	Jul 06	18,149
100	Marathon Oil Co.	75	Jul 06	8,700
100	Marathon Oil Co.	55	Oct 06	9,200
85	Martin Marietta Materials, Inc.	80	Jul 06	9,944
100	Suncor Energy	65	Jul 06	9,200
100	Suncor Energy	70	Jul 06	16,199
200	Suncor Energy	60	Sep 06	8,399
150	TODCO	30	Jul 06	13,050
150	TODCO	35	Jul 06	9,299
100	TODCO	40	Jul 06	(5,300)
150	TODCO	30	Sep 06	4,050
100	Valero Energy Corp.	57.50	Jul 06	10,700
150	Valero Energy Corp.	47.50	Sep 06	10,049
<u>2,380</u>				<u>190,868</u>
				<u>\$ (38,558)</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, 2006
(unaudited)*

	Shares or Units		
	Additions	Reductions	Held June 30, 2006
Arch Coal Inc.	120,000 ⁽¹⁾	290,000	30,000
Arkema Inc.	6,000 ⁽²⁾		6,000
Aventine Renewable Energy Holdings, Inc.	40,000		40,000
ConocoPhillips	46,891 ⁽³⁾		556,891
Consol Energy Inc.	160,000 ⁽¹⁾	240,000	80,000
Exxon Mobil Corp.	20,000		1,160,000
Hercules Offshore, Inc.	40,000		150,000
Hess Corp.	130,000 ⁽¹⁾		195,000
Holly Corp.	210,000 ⁽¹⁾		420,000
Hugoton Royalty Trust	23,843 ⁽⁴⁾		23,843
Kerr-McGee Corp.	112,647 ⁽⁵⁾	5,000	215,294
Marathon Oil Co.	10,000		120,000
Nabors Industries Ltd.	260,000 ⁽¹⁾		520,000
Noble Corp.	15,000		200,000
Schlumberger Ltd.	280,000 ⁽¹⁾		560,000
Semco Energy, Inc.	325,200		325,200
Suncor Energy	90,000		90,000
Total S.A. ADR	120,000 ⁽¹⁾		240,000
Tronox Inc. Class A	21,705	21,705	—
Tronox Inc. Class B	1,000	22,705	—
Valero Energy Corp.	115,000		355,000
Western Refining Inc.	75,000	350,000	75,000
Apache Corp.		6,800	158,200
Burlington Resources Inc.		65,000 ⁽³⁾	—
Murphy Oil Corp.		33,500	216,500
Pioneer Natural Resources Co.		10,000	165,000
Smurfit-Stone Container Corp.		300,000	—

⁽¹⁾ By stock split.

⁽²⁾ Received .05 shares for each share of Total S.A. ADR held.

⁽³⁾ Received .7214 shares of ConocoPhillips and \$46.50 in cash in exchange for each share of Burlington Resources Inc. held.

⁽⁴⁾ Received .059609 shares for each share of XTO Energy Inc. held.

⁽⁵⁾ Received 107,647 shares by stock split.

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 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 (hereafter referred to as the “Corporation”) at June 30, 2006, and the results of its operations, the changes in its net assets and the financial highlights for each of the fiscal periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Corporation’s management; our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at June 30, 2006 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Baltimore, Maryland
July 13, 2006

O T H E R I N F O R M A T I O N

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

In addition to publishing its complete schedule of portfolio holdings in the First and Third Quarter Reports to shareholders, the Corporation files its complete schedule of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q. The Corporation’s Forms N-Q are available on the Commission’s website at www.sec.gov. The Corporation’s Forms N-Q may be reviewed and copied at the Commission’s Public Reference Room, and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The Corporation also posts its Forms N-Q on its website at: www.peteres.com 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, 2006 are available (i) without charge, upon request, by calling the Corporation’s toll free number at (800) 638-2479; (ii) on the Corporation’s website by clicking on “Corporate Information” heading

on the website; and (iii) on the Securities and Exchange Commission’s website at <http://www.sec.gov>.

PRIVACY POLICY

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

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

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

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 Shareholders

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

The Corporation

Petroleum & Resources Corporation

Lawrence L. Hooper, Jr.

Vice President, General Counsel and Secretary

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

(800) 638-2479

Website: www.peteres.com

E-mail: contact@peteres.com

The Transfer Agent

American Stock Transfer & Trust Company

Address Shareholder Inquiries to:

Shareholder Relations Department

59 Maiden Lane

New York, NY 10038

(866) 723-8330

Website: www.amstock.com

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

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

Officers

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

Stock Data

Market Price (6/30/06)	\$33.99
Net Asset Value (6/30/06)	\$38.92
Discount:	12.7%

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 2006

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

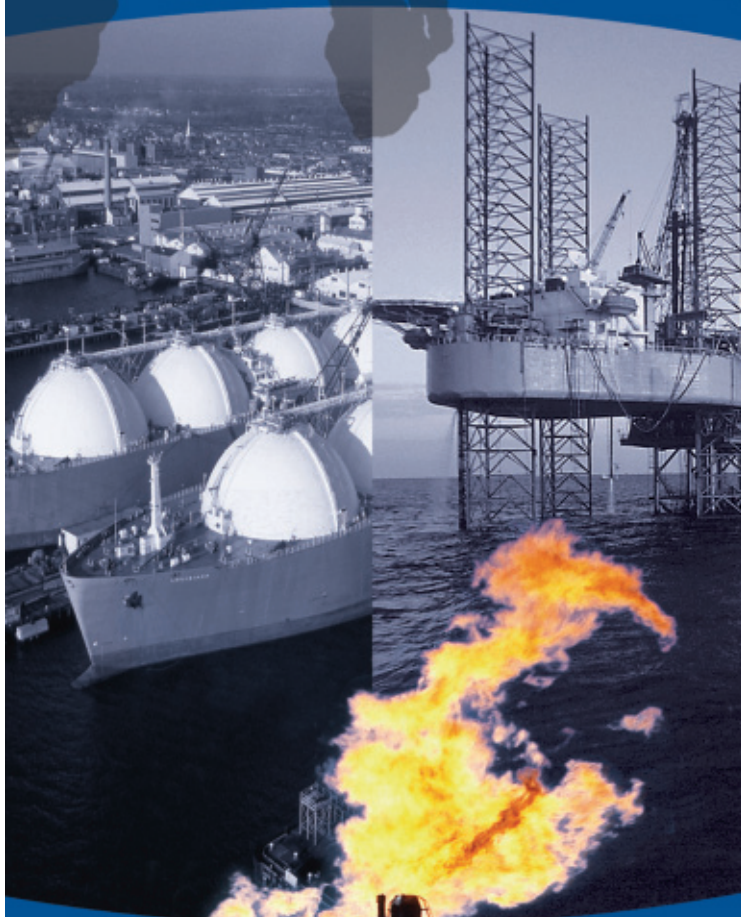
2006 Dividend Payment Dates

- March 1, 2006
- June 1, 2006
- September 1, 2006
- December 27, 2006*

*Anticipated



Petroleum
& Resources
Corporation



Semi-Annual Report
June 30, 2006

investing in resources for the future[®]