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PETROLEUM & RESOURCES CORP  
Form N-CSRS  
August 03, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-02736  
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PETROLEUM & RESOURCES CORPORATION  
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(Exact name of registrant as specified in charter)

7 Saint Paul Street, Suite 1140, Baltimore, Maryland 21202  
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(Address of principal executive offices) (Zip code)

Lawrence L. Hooper, Jr.  
Petroleum & Resources Corporation  
7 Saint Paul Street  
Suite 1140  
Baltimore, Maryland 21202

Registrant's telephone number, including area code: 410-752-5900

Date of fiscal year end: December 31, 2004

Date of reporting period: June 30, 2004

[GRAPHIC APPEARS HERE]

PETROLEUM & RESOURCES CORPORATION  
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Board of Directors

Enrique R. Arzac /1/,/2/	W. Perry Neff /2/,/4/
Phyllis O. Bonanno /1/,/3/	Douglas G. Ober /1/
Daniel E. Emerson /1/,/3/	Landon Peters /2/,/3/
Thomas H. Lenagh /1/,/4/	John J. Roberts /1/
W.D. MacCallan /3/,/4/	Susan C. Schwab /2/,/4/
Kathleen T. McGahran /2/,/4/	Robert J.M. Wilson /1/,/3/

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

Chairman, President and Chief Executive  
Officer

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Joseph M. Truta	Executive Vice President
Lawrence L. Hooper, Jr.	Vice President, General Counsel and Secretary
Maureen A. Jones	Vice President, Chief Financial Officer and Treasurer
Nancy J.F. Prue	Vice President--Research
Christine M. Sloan	Assistant Treasurer
Geraldine H. Pare	Assistant Secretary

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Stock Data  
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Market Price (6/30/04)	\$ 23.81
Net Asset Value (6/30/04)	\$ 26.22
Discount:	9.2%

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

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Distributions in 2004  
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From Investment Income (paid or declared)	\$ 0.30
From Net Realized Gains	0.09
Total	\$ 0.39

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2004 Dividend Payment Dates  
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March 1, 2004  
June 1, 2004  
September 1, 2004  
December 27, 2004\*

\* Anticipated

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LETTER TO STOCKHOLDERS  
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We submit herewith the audited financial statements of the Corporation for the six months ended June 30, 2004. In addition, there is a report of the independent registered public accounting firm, and a schedule of investments, along with other financial information.

Net assets of the Corporation at June 30, 2004 were \$26.22 per share on 21,682,327 shares outstanding, compared with \$24.06 per share at December 31, 2003 on 21,736,777 shares outstanding. On March 1, 2004, a distribution of \$0.13 per share was paid, consisting of \$0.07 from 2003 long-term capital gain, \$0.02 from 2003 short-term capital gain, \$0.03 from 2003 investment income and \$0.01 from 2004 investment income, all taxable in 2004. A 2004 investment income dividend of \$0.13 per share was paid on June 1, 2004 and another \$0.13 investment income dividend has been declared to shareholders of record August 17, 2004, payable on September 1, 2004.

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Net investment income for the six months ended June 30, 2004 amounted to \$4,645,489, compared with \$3,942,668 for the same period in 2003. These earnings are equal to \$0.21 and \$0.18 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, 2004 amounted to \$7,452,675, the equivalent of \$0.34 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 14 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,

/s/ Douglas G. Ober  
Douglas G. Ober,  
Chairman, President and  
Chief Executive Officer

July 23, 2004

### STATEMENT OF ASSETS AND LIABILITIES

June 30, 2004

#### Assets

##### Investments\* at value:

Common stocks and convertible securities (cost \$279,204,690)	\$ 504,988,223	
Short-term investments (cost \$62,369,605)	62,369,605	
Securities lending collateral (cost \$38,883,142)	38,883,142	\$ 606,240,970

##### Cash

349,511

##### Receivables:

Investment securities sold	2,028,244
Dividends and interest	502,505
Prepaid expenses and other assets	1,594,418

#### Total Assets

610,715,648

#### Liabilities

Investment securities purchased	126,241
Open written option contracts at value (proceeds \$403,747)	718,740
Obligations to return securities lending collateral	38,883,142
Accrued expenses	2,479,421

#### Total Liabilities

42,207,544

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Net Assets	\$ 568,508,104
=====	
Net Assets	
Common Stock at par value \$1.00 per share, authorized 50,000,000 shares; issued and outstanding 21,682,327 shares	\$ 21,682,327
Additional capital surplus	311,592,198
Undistributed net investment income	2,450,993
Undistributed net realized gain on investments	7,314,046
Unrealized appreciation on investments	225,468,540
-----	
Net Assets Applicable to Common Stock	\$ 568,508,104
=====	
Net Asset Value Per Share of Common Stock	\$ 26.22
=====	

\* See Schedule of Investments on pages 8 and 9.

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

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STATEMENT OF OPERATIONS

-----  
Six Months Ended June 30, 2004

Investment Income	
Income:	
Dividends	\$ 5,687,944
Interest and other income	313,352
-----	
Total income	6,001,296
-----	
Expenses:	
Investment research	401,917
Administration and operations	290,809
Directors' fees	153,375
Reports and stockholder communications	121,899
Transfer agent, registrar and custodian expenses	78,419
Auditing and accounting services	37,281
Legal services	47,793
Occupancy and other office expenses	94,143
Travel, telephone and postage	27,101
Other	103,070
-----	
Total expenses	1,355,807
-----	
Net Investment Income	4,645,489
-----	
Realized Gain and Change in Unrealized Appreciation on Investments	
Net realized gain on security transactions	7,452,675
Change in unrealized appreciation on investments	40,395,990
-----	
Net Gain on Investments	47,848,665
-----	
Change in Net Assets Resulting from Operations	\$ 52,494,154
=====	

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

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### STATEMENTS OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2004	Year Ended December 31, 2003
From Operations:		
Net investment income	\$ 4,645,489	\$ 8,134,186
Net realized gain on investments	7,452,675	17,219,079
Change in unrealized appreciation on investments	40,395,990	66,291,943
Change in net assets resulting from operations	52,494,154	91,645,208
Distributions to Stockholders from:		
Net investment income	(3,695,248)	(8,108,325)
Net realized gain from investment transactions	(1,956,308)	(17,260,893)
Decrease in net assets from distributions	(5,651,556)	(25,369,218)
From Capital Share Transactions:		
Value of shares issued in payment of distributions	--	9,783,141
Cost of shares purchased (Note 4)	(1,275,773)	(4,393,315)
Change in net assets from capital share transactions	(1,275,773)	5,389,826
Total Increase in Net Assets	45,566,825	71,665,816
Net Assets:		
Beginning of period	522,941,279	451,275,463
End of period (including undistributed net investment income of \$2,450,993 and \$1,500,752, respectively)	\$ 568,508,104	\$ 522,941,279

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

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### 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.

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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, 2004 was \$381,146,354, and net unrealized appreciation aggregated \$225,498,363, of which the related gross unrealized appreciation and depreciation were \$238,194,052 and \$12,695,689, 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, 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, 2004 were \$31,652,370 and \$34,228,421, respectively. Options may be written (sold) or purchased by the Corporation. The Corporation, as writer of an option, bears the risk of possible illiquidity of the option markets and from movements in security values. The risk associated with purchasing an option is limited to the premium originally paid. A schedule of outstanding option contracts as of June 30, 2004 can be found on page 10.

Transactions in written covered call and collateralized put options during the six months ended June 30, 2004 were as follows:

	Covered Calls		Collateralized Puts	
	Contracts	Premiums	Contracts	Premiums
Options outstanding, December 31, 2003	550	\$ 62,932	350	\$ 36,992
Options written	2,765	354,677	1,822	217,628
Options terminated in closing purchase transactions	(300)	(31,949)		
Options expired	(540)	(66,210)	(700)	(72,398)
Options exercised	(675)	(81,932)	(150)	(15,993)
<hr/>				
Options outstanding, June 30, 2004	1,800	\$ 237,518	1,322	\$ 166,229
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### 4. CAPITAL STOCK

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

On December 27, 2003, the Corporation issued 450,110 shares of its Common Stock at a price of \$21.735 per share (the average market price on December 8, 2003) to stockholders of record on November 24, 2003 who elected to take stock in payment of the distribution from 2003 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 2004 and 2003 were as follows:

	Shares		Amount	
	Six months ended June 30, 2004	Year ended December 31, 2003	Six months ended June 30, 2004	Year ended December 31, 2003
Shares issued in payment of dividends	--	450,110	\$ --	\$ 9,783,141
Shares purchased (at a weighted average discount from net asset value of 8.1% and 8.2%, respectively)	(54,450)	(223,400)	(1,275,773)	(4,393,315)
Net change	(54,450)	226,710	\$ (1,275,773)	\$ 5,389,826

On June 30, 2004, the Corporation held a total of 54,450 shares of its Common Stock at a cost of \$1,275,773. There were no shares held by the Corporation at December 31, 2003.

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### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 2004, there were 129,447 options outstanding at a weighted average exercise price of \$18.35 per share. During the six months ended June 30, 2004, the Corporation granted options including stock appreciation rights for 19,241 shares of Common Stock

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with an original weighted average exercise price of \$22.86. During the six months ended June 30, 2004, stock appreciation rights relating to 9,941 stock option shares were exercised at a weighted average market price of \$23.99 per share and the stock options relating to these rights with a weighted average exercise price of \$13.06 per share were cancelled. At June 30, 2004, there were outstanding exercisable options to purchase 52,264 common shares at \$10.83-\$24.44 per share (weighted average price of \$17.95) and unexercisable options to purchase 86,483 common shares at \$15.05-\$24.44 per share (weighted average price of \$19.87). The weighted average remaining contractual life of outstanding exercisable and unexercisable options was 5.25 years and 6.68 years, respectively. The total compensation expense for stock options and stock appreciation rights recognized for the six months ended June 30, 2004 was \$118,744. At June 30, 2004, there were 260,373 shares available for future option grants.

### 5. RETIREMENT PLANS

The Corporation's non-contributory qualified defined benefit pension plan covers all full-time employees with at least one year of service. 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 plan 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, 2004, the Corporation contributed \$590,000 to the plan. The Corporation does not anticipate making additional contributions to the plan in 2004.

In addition, the Corporation has a nonqualified defined benefit plan which provides eligible employees with retirement benefits to supplement the qualified plan.

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

	June 30, 2004
Service Cost	\$ 68,540
Interest Cost	122,711
Expected return on plan assets	(108,398)
Amortization of prior service cost	28,926
Amortization of net loss	66,365
Net periodic pension cost	\$ 178,144

The Corporation also sponsors a defined contribution plan that covers substantially all employees. For the six months ended June 30, 2004, the Corporation expensed contributions of \$26,491. The Corporation does not provide postretirement medical benefits.

### 6. EXPENSES

The cumulative amount of accrued expenses at June 30, 2004 for employees and former employees of the Corporation was \$1,176,367. Aggregate remuneration paid or accrued during the six months ended June 30, 2004 to directors and key employees amounted to \$607,413.

### 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



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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 approximately 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, 2004, the Corporation had securities on loan of \$38,176,460 and held collateral of \$38,883,142, consisting of repurchase agreements and commercial paper.

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### FINANCIAL HIGHLIGHTS

	Six Months Ended		Year End		
	June 30, 2004	June 30, 2003	2003	2002	
Per Share Operating Performance*					
Net asset value, beginning of period	\$ 24.06	\$ 20.98	\$ 20.98	\$ 24.90	\$
Net investment income	0.21	0.18	0.38	0.42	
Net realized gains and change in unrealized appreciation	2.20	1.44	3.89	(3.20)	
Total from investment operations	2.41	1.62	4.27	(2.78)	
Less distributions					
Dividends from net investment income	(0.17)	(0.17)	(0.38)	(0.43)	
Distributions from net realized gains	(0.09)	(0.09)	(0.81)	(0.68)	
Total distributions	(0.26)	(0.26)	(1.19)	(1.11)	
Capital share repurchases	0.01	0.02	0.02	0.01	
Reinvestment of distributions	--	--	(0.02)	(0.04)	
Total capital share transactions	0.01	0.02	0.00	(0.03)	
Net asset value, end of period	\$ 26.22	\$ 22.36	\$ 24.06	\$ 20.98	\$
Per share market price, end of period					
	\$ 23.81	\$ 20.60	\$ 23.74	\$ 19.18	\$
Total Investment Return					
Based on market price	1.4%	8.8%	30.8%	(13.7)%	
Based on net asset value	10.2%	7.9%	21.2%	(11.1)%	
Ratios/Supplemental Data					
Net assets, end of period (in 000's)	\$ 568,508	\$ 476,545	\$ 522,941	\$ 451,275	\$
Ratio of expenses to average net assets	0.50%+	0.84%+	0.74%	0.49%	
Ratio of net investment income to average net assets	1.73%+	1.74%+	1.75%	1.84%	
Portfolio turnover	13.31%+	4.68%+	10.20%	9.69%	
Number of shares outstanding at end of period (in 000's)*	21,682	21,313	21,737	21,510	

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\*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.

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### SCHEDULE OF INVESTMENTS

-----  
June 30, 2004

	Prin. Amt. or Shares	Value (A)
-----		
Stocks And Convertible Securities -- 88.8%		
Energy -- 74.2%		
Internationals -- 25.4%		
BP plc ADR	600,000	\$ 32,142,000
ChevronTexaco Corp.	270,000	25,409,700
Exxon Mobil Corp.	1,050,000	46,630,500
Royal Dutch Petroleum Co. ADR	400,000	20,668,000
"Shell" Transport and Trading Co., plc ADR (B)	135,000	6,034,500
Total S.A. ADR (B)	140,000	13,451,200
		-----
		144,335,900
		-----
Domestics -- 8.9%		
Amerada Hess Corp. (B)	125,000	9,898,750
ConocoPhillips	300,000	22,887,000
Kerr McGee Corp. (B)	177,153	9,525,517
Murphy Oil Corp.	65,000	4,790,500
Unocal Capital Trust \$3.125 Conv. Pfd.	72,540	3,776,614
		-----
		50,878,381
		-----
Producers -- 13.8%		
Apache Corp.	190,000	8,274,500
Burlington Resources Inc.	266,800	9,652,824
Devon Energy Corp.	198,720	13,115,520
EOG Resources, Inc.	200,000	11,942,000
Noble Energy, Inc.	141,000	7,191,000
Occidental Petroleum Corp.	200,000	9,682,000
Pioneer Natural Resources Co. (B) (C)	316,000	11,085,280
XTO Energy Inc.	250,000	7,447,500
		-----
		78,390,624
		-----
Distributors -- 13.7%		
AGL Resources Inc.	250,000	7,262,500
Duke Energy Corp.	217,624	4,415,591
Energen Corp.	200,000	9,598,000
Equitable Resources Inc.	250,000	12,927,500
Keyspan Corp.	220,000	8,074,000
MDU Resources Group, Inc.	300,000	7,209,000
National Fuel Gas Co.	200,000	5,000,000
New Jersey Resources Corp.	277,500	11,538,450
Questar Corp.	200,000	7,728,000
Williams Companies, Inc. 9.0%		

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FELINE PACS due 2005	120,000	1,653,600
Williams Companies, Inc.	200,000	2,380,000
		-----
		77,786,641
		-----
Services -- 12.4%		
Baker Hughes, Inc.	130,000	4,894,500
BJ Services Co. (C)	370,000	16,960,800
GlobalSantaFe Corp.	200,000	5,300,000
Grant Prideco Inc. (B) (C)	308,000	5,685,680
Nabors Industries Ltd. (C)	125,000	5,652,500
Noble Corp. (C)	135,000	5,115,150
Schlumberger Ltd.	280,000	\$ 17,782,800
Weatherford International, Ltd. (B) (C)	205,000	9,220,900
		-----
		70,612,330
		-----
Basic Industries -- 14.6%		
Basic Materials & Other -- 10.5%		
Air Products and Chemicals, Inc.	125,000	6,556,250
Albemarle Corp.	48,450	1,533,443
Aqua America, Inc.	322,500	6,466,125
Arch Coal Inc. (B)	250,000	9,147,500
du Pont (E.I.) de Nemours and Co.	175,000	7,773,500
General Electric Co.	454,800	14,735,520
Ingersoll-Rand Co. Ltd.	76,400	5,218,882
Rohm & Haas Co.	200,000	8,316,000
		-----
		59,747,220
		-----
Paper and Forest Products -- 4.1%		
Boise Cascade Corp. 7.5% ACES due 2004	51,000	2,690,250
Boise Cascade Corp.	205,000	7,716,200
Smurfit-Stone Container Corp. (C)	278,668	5,559,427
Temple-Inland Inc.	105,000	7,271,250
		-----
		23,237,127
		-----
Total Stocks And Convertible Securities (Cost \$279,204,690) (D)		504,988,223
		-----
Short-Term Investments -- 11.0%		
U.S. Government Obligations -- 1.8%		
U.S. Treasury Bills, 0.96%, due 8/19/04	\$ 10,000,000	9,986,933
		-----
Certificates of Deposit -- 1.0%		
Mercantile-Safe Deposit & Trust Co., 0.90%, due 9/7/04	\$ 5,550,000	5,550,000
		-----
Commercial Paper -- 8.2%		
American General Finance Corp., 1.05-1.16%, due 7/13/04-7/22/04	\$ 7,000,000	6,996,840
ChevronTexaco Funding Corp., 1.01-1.23%, due 7/6/04-8/5/04	\$ 6,850,000	6,845,524
Coca-Cola Corp., 1.25%, due 8/3/04	\$ 745,000	744,146
Coca-Cola Enterprises Inc., 1.18%, due 7/29/04	\$ 3,300,000	3,296,971

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General Electric Capital Corp.,  
 1.13 - 1.23%,  
 due 7/15/04 - 8/3/04 \$ 4,445,000 4,441,278

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SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2004

	Prin. Amt.	Value (A)
	-----	-----
General Electric Capital Services Corp., 1.22 -1.26%, due 7/29/04 - 8/5/04	\$ 2,400,000	\$ 2,397,564
GMAC New Center Asset Trust, 1.08%, due 7/8/04	5,450,000	5,448,856
Pfizer Inc., 1.07%, due 7/27/04	5,325,000	5,320,885
Proctor & Gamble Co., 1.24%, due 8/5/04	4,750,000	4,744,274
Toyota Motor Credit Corp., 1.03 - 1.18%, due 7/15/04 - 7/20/04	6,600,000	6,596,334
		-----
		46,832,672
		-----
Total Short-Term Investments (Cost \$62,369,605)		\$ 62,369,605
		-----
		Value (A)
		-----
Securities Lending Collateral -- 6.8% Repurchase Agreements		
Daiwa Securities America Inc., 1.65%, due 7/1/04		\$ 6,385,709
Commercial Paper		
Citi Corp., 1.38%, due 8/3/04		1,498,044
Giro Balanced Funding Corp., 1.29%, due 7/15/04		999,389
		-----
Total Securities Lending Collateral (Cost \$38,883,142)		38,883,142
		-----
Total Investments -- 106.6% (Cost \$380,457,437)		606,240,970
Cash, receivables and other assets, less liabilities -- (6.6)%		(37,732,866)
		-----
Net Assets -- 100.0%		\$ 568,508,104
		=====

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 or all of these securities are on loan. See note 7 to financial statements.
- (C) Presently non-dividend paying.

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(D) The aggregate market value of stocks held in escrow at June 30, 2004 covering open call option contracts written was \$11,644,950. In addition, the aggregate market value of securities segregated by the Corporation's custodian required to collateralize open put option contracts written was \$5,372,500.

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### SCHEDULE OF OUTSTANDING OPTION CONTRACTS

June 30, 2004

Contracts (100 shares each)	Security	Strike Price	Contract Expiration Date	Appreciation/ (Depreciation)
COVERED CALLS				
150	Amerada Hess Corp. ....	\$ 65	Aug 04	\$ (201,676)
250	Boise Cascade Corp. ....	40	Aug 04	(8,251)
250	Boise Cascade Corp. ....	40	Nov 04	(22,001)
200	ConocoPhillips .....	80	Aug 04	7,199
200	EOG Resources, Inc. ....	50	Jul 04	(165,602)
100	Ingersoll-Rand Co. Ltd. ....	70	Jul 04	1,200
250	Temple-Inland Inc. ....	70	Aug 04	(22,001)
150	Temple-Inland Inc. ....	70	Nov 04	(19,951)
150	Total S.A. ....	100	Aug 04	(7,850)
100	Total S.A. ....	105	Nov 04	2,200
1,800				(436,733)
COLLATERALIZED PUTS				
100	BP plc .....	45	Jul 04	13,199
200	Baker Hughes, Inc. ....	30	Oct 04	12,549
150	ConocoPhillips .....	65	Aug 04	18,300
150	du Pont (E.I.) de Nemours and Co. ..	37.50	Oct 04	9,300
200	Murphy Oil Corp. ....	55	July 04	16,849
72	Murphy Oil Corp. ....	50	Oct 04	3,744
200	Pioneer Natural Resources Co. ....	30	Sep 04	24,399
100	Schlumberger Ltd. ....	50	Nov 04	14,100
150	Smurfit-Stone Container Corp. ....	15	Aug 04	9,300
1,322				121,740
				\$ (314,993)

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### CHANGES IN PORTFOLIO SECURITIES

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During the Three Months Ended June 30, 2004  
(unaudited)

	Shares		
	Additions	Reductions	Held June 30, 2004
	-----	-----	-----
BP plc ADR	10,000		600,000
Burlington Resources Inc.	133,400 (1)		266,800
ConocoPhillips	15,000		300,000
Duke Energy Corp.	102,624 (2)		217,624
du Pont (E.I.) de Nemours and Co.	175,000		175,000
Pioneer Natural Resources Co.	20,000		316,000
Smurfit-Stone Container Corp.	80,993		278,668
XTO Energy Inc.	31,100		250,000
Albemarle Corp.		151,550	48,450
Aqua America, Inc.		7,500	322,500
ChevronTexaco Corp.		20,000	270,000
Duke Energy Corp. 8.25% Conv. Pfd, due 2004		160,000 (2)	--
Ingersoll-Rand Co. Ltd.		1,600	76,400
Kinder Morgan, Inc.		77,300	--
Royal Dutch Petroleum Co. ADR		10,000	400,000
Stone Energy Corp.		104,300	--
TECO Energy, Inc.		200,000	--

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 (1) By stock split  
 (2) By conversion.

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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.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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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, 2004, 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

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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), 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, 2004 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
 Baltimore, Maryland  
 July 8, 2004

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### HISTORICAL FINANCIAL STATISTICS

December 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*
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
2003	522,941,279	21,736,777	24.06	.38	.81
June 30, 2004	568,508,104	21,682,327	26.22	.30+	.09+

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

+ Paid or declared.

Common Stock  
 Listed on the New York Stock Exchange  
 and the Pacific Exchange

Petroleum & Resources Corporation  
 Seven St. Paul Street, Suite 1140, Baltimore, MD 21202  
 (410) 752-5900 or (800) 638-2479  
 Website: [www.peteres.com](http://www.peteres.com)  
 E-mail: [contact@peteres.com](mailto:contact@peteres.com)  
 Counsel: Chadbourne & Parke L.L.P.

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Independent Registered Public Accounting Firm: PricewaterhouseCoopers LLP

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

Custodian of Securities: The Bank of New York

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## SHAREHOLDER INFORMATION AND SERVICES

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### 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



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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.

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The Corporation  
Petroleum & Resources Corporation  
Lawrence L. Hooper, Jr.  
Vice President, General Counsel and Secretary  
Seven St. Paul Street, Suite 1140, Baltimore, MD 21202  
(800) 638-2479  
Website: [www.peteres.com](http://www.peteres.com)  
E-mail: [contact@peteres.com](mailto:contact@peteres.com)

The Transfer Agent  
American Stock Transfer & Trust Company  
Address Shareholder Inquiries to:  
Shareholder Relations Department  
59 Maiden Lane  
New York, NY 10038  
(866) 723-8330  
Website: [www.amstock.com](http://www.amstock.com)  
E-mail: [info@amstock.com](mailto:info@amstock.com)

Investors Choice Mailing Address:  
Attention: Dividend Reinvestment  
P.O. Box 922  
Wall Street Station  
New York, NY 10269  
Website: [www.InvestPower.com](http://www.InvestPower.com)  
E-mail: [info@InvestPower.com](mailto:info@InvestPower.com)

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

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Item 2: Code(s) of Ethics for senior financial officers - Item not applicable to semi-annual report.

Item 3: Audit Committee Financial Expert - Item not applicable to semi-annual report.

Item 4: Principal Accountant Fees and Services - Item not applicable to semi-annual report.

Item 5: Audit Committee of Listed Registrants - Item not applicable to semi-annual report.

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Item 6: Schedule of Investments - This schedule is included as part of the report to shareholders filed under Item 1 of this form.

Item 7: Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies - Item not applicable to semi-annual report.

Item 8: Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

Period(2)	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Jan. 2004	0	--	0	1,064,333
Feb. 2004	0	--	0	1,064,333
Mar. 2004	0	--	0	1,064,333
Apr. 2004	0	--	0	1,064,333
May 2004	7,900	\$ 23.04	7,900	1,056,433
June 2004	46,550	\$ 23.50	46,550	1,009,933
Total	54,450(1)	\$ 23.43	54,450(2)	1,009,883(2)

(1) There were no shares purchased other than through a publicly announced plan or program.

(2.a) The Plan was announced on December 11, 2003.

(2.b) The share amount approved was 5% of outstanding shares, or approximately 4,112,647 shares.

(2.c) The Plan will expire on or about December 9, 2004.

(2.d) None.

(2.e) None.

Item 9: Submission of Matters to a Vote of Security Holders - There were no material changes to the procedures by which shareholders may recommend nominees to the registrant's board of directors made or implemented after the registrant last provided disclosure in response to the requirements of Item 7(d)(2)(ii)(G) of Schedule 14A (17 CFR 240.14a-101), or this Item.

Item 10: Controls and Procedures.

(a) The registrant's Principal Executive Officer and Principal Financial Officer have evaluated the registrant's disclosure controls and procedures within 90 days of this filing and have concluded that the registrant's disclosure controls and procedures were effective, as of that date, in ensuring that information required to be disclosed by the registrant in this Form N-CSR was recorded, processed, summarized, and reported timely.

(b) Internal Controls. There were no significant changes in the registrant's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to

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significant deficiencies and material weaknesses.

Item 11: Exhibits attached hereto. (Attach certifications as exhibits)

(1) Not required at this time.

(2) Separate certifications by the registrant's principal executive officer and principal financial officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and required by Rule 30a-2 under the Investment Company Act of 1940, are attached.

A certification by the registrant's principal executive officer and principal financial officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is attached.

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PETROLEUM & RESOURCES CORPORATION

BY: /s/ Douglas G. Ober

-----  
Douglas G. Ober  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 2, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

BY: /s/ Douglas G. Ober

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Douglas G. Ober  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 2, 2004

BY: /s/ Maureen A. Jones

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Maureen A. Jones  
Vice President, Chief Financial Officer and Treasurer  
(Principal Financial Officer)

Date: August 2, 2004