

PETROLEUM & RESOURCES CORP  
Form N-30D  
April 15, 2003

**PETROLEUM & RESOURCES CORPORATION**

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**Board of Directors**

Enrique R. Arzac<sup>2,4</sup>  
Daniel E. Emerson<sup>1,3</sup>  
Edward J. Kelly, III<sup>1,4</sup>  
Thomas H. Lenagh<sup>1,4</sup>  
W.D. MacCallan<sup>3,4</sup>  
W. Perry Neff<sup>2,4</sup>

Douglas G. Ober<sup>1</sup>  
Landon Peters<sup>2,3</sup>  
John J. Roberts<sup>1,2</sup>  
Susan C. Schwab<sup>1,3</sup>  
Robert J.M. Wilson<sup>1,3</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  
Joseph M. Truta  
Nancy J.F. Prue  
Lawrence L. Hooper, Jr.  
Maureen A. Jones  
Christine M. Sloan  
Geraldine H. Paré

*Chairman, President and Chief Executive Officer*  
*Executive Vice President*  
*Vice President Research*  
*Vice President, Secretary and General Counsel*  
*Vice President and Chief Financial Officer*  
*Assistant Treasurer*  
*Assistant Secretary*

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**Stock Data**

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Price (3/31/03)	\$	19.19
Net Asset Value (3/31/03)	\$	20.45
Discount:		6.2%

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 2003**

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From Investment Income (paid or declared)	\$	0.17
From Net Realized Gains		0.09
<b>Total</b>	<b>\$</b>	<b>0.26</b>

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**2003 Dividend Payment Dates**

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March 1, 2003

June 1, 2003

September 1, 2003\*

December 27, 2003\*

\*Anticipated

**FIRST QUARTER REPORT**

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March 31, 2003

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LETTER TO STOCKHOLDERS

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We submit herewith the financial statements of the Corporation for the three months ended March 31, 2003. In addition, there is a schedule of investments provided along with other financial information.

Net assets of the Corporation at March 31, 2003 were \$20.45 per share on 21,460,567 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 has been declared to shareholders of record May 16, 2003, payable June 1, 2003.

Net investment income for the three months ended March 31, 2003 amounted to \$1,627,272, compared with \$1,608,637 for the same period in 2002. These earnings are equal to \$0.08 per share on the average number of shares outstanding during each period.

Net capital gain realized on investments for the three months ended March 31, 2003 amounted to \$2,245,818, the equivalent of \$0.10 per share.

The Annual Meeting, held on March 25, 2003 in Chicago, Illinois, was well attended by shareholders. The results of the voting at the Annual Meeting are shown on page 12.

As noted in a prior report, Mr. Richard F. Koloski retired from the Corporation effective March 31, 2003. Mr. Koloski had been with the Corporation for over twenty-four years, initially as an energy analyst. He was elected President and senior portfolio manager in 1986. Mr. Koloski's years of service were recognized by the Board of Directors and shareholders at the Annual Meeting. His many contributions to the Corporation over the years are greatly appreciated by his colleagues and by the Board and his wisdom, particularly in the area of the energy industry, will be missed. We wish him the very best in his retirement.

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 site 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 fund 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,

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*Chairman, President and*

*Chief Executive Officer*

April 18, 2003

## STATEMENT OF ASSETS AND LIABILITIES

March 31, 2003

(unaudited)

**Assets**

Investments\* at value:

Common stocks and convertible securities

(cost \$284,358,676)

\$ 390,633,969

Short-term investments (cost \$47,640,475)

47,640,475

\$ 438,274,444

Cash 56,694

Securities lending collateral 38,293,707

Receivables:

Investment securities sold 12,500

Dividends and interest 489,582

Prepaid expenses and other assets 1,781,434

*Total Assets* 478,908,361**Liabilities**

Investment securities purchased 190,988

Open written option contracts at value (proceeds \$172,944) 117,325

Obligations to return securities lending collateral 38,293,707

Accrued expenses 1,344,590

*Total Liabilities* 39,946,610**Net Assets** \$ 438,961,751**Net Assets**

Common Stock at par value \$1.00 per share, authorized 50,000,000 shares; issued and outstanding

21,460,567 shares

\$ 21,460,567

Additional capital surplus 306,757,064

Undistributed net investment income 2,242,389

Undistributed net realized gain on investments 2,170,819

Unrealized appreciation on investments 106,330,912

**Net Assets Applicable to Common Stock** \$ 438,961,751**Net Asset Value Per Share of Common Stock** \$20.45

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

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

## STATEMENT OF OPERATIONS

*Three Months Ended March 31, 2003**(unaudited)*

<b>Investment Income</b>	
Income:	
Dividends	\$ 2,214,916
Interest and other income	160,764
<b>Total income</b>	<b>2,375,680</b>
Expenses:	
Investment research	287,577
Administration and operations	165,733
Directors' fees	58,500
Reports and stockholder communications	77,823
Transfer agent, registrar and custodian expenses	44,659
Auditing and accounting services	19,259
Legal services	2,279
Occupancy and other office expenses	64,096
Travel, telephone and postage	15,573
Other	12,909
<b>Total expenses</b>	<b>748,408</b>
<b>Net Investment Income</b>	<b>1,627,272</b>
<b>Realized Gain and Change in Unrealized Appreciation on Investments</b>	
Net realized gain on security transactions	2,245,818
Change in unrealized appreciation on investments	(12,449,695)
<b>Net Loss on Investments</b>	<b>(10,203,877)</b>
<b>Change in Net Assets Resulting from Operations</b>	<b>\$ (8,576,605)</b>

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

## STATEMENTS OF CHANGES IN NET ASSETS

	Three Months Ended March 31, 2003	Year Ended December 31, 2002
	(unaudited)	
<b>From Operations:</b>		
Net investment income	\$ 1,627,272	\$ 8,983,077
Net realized gain on investments	2,245,818	14,332,921
Change in unrealized appreciation on investments	(12,449,695)	(82,017,470)
<i>Change in net assets resulting from operations</i>	(8,576,605)	(58,701,472)
<b>Dividends to Stockholders from:</b>		
Net investment income	(859,774)	(9,069,217)
Net realized gain from investment transactions	(1,934,492)	(14,302,830)
<i>Decrease in net assets from distributions</i>	(2,794,266)	(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)	(942,841)	(3,097,181)
<i>Change in net assets from capital share transactions</i>	(942,841)	6,857,184
<b>Total Decrease in Net Assets</b>	(12,313,712)	(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 \$2,242,389 and \$1,474,891, respectively)	\$ 438,961,751	\$ 451,275,463

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



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NOTES TO FINANCIAL STATEMENTS (unaudited)

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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 March 31, 2003 was \$332,086,653, and net unrealized appreciation aggregated \$106,360,735, of which the related gross unrealized appreciation and depreciation were \$152,288,276 and \$45,927,541, 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 three months ended March 31, 2003 were \$4,256,167 and \$3,821,999, 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 March 31, 2003 can be found on page 10.

Transactions in written covered call and collateralized put options during the three months ended March 31, 2003 were as follows:

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	Covered Calls		Collateralized Puts	
	Contracts	Premiums	Contracts	Premiums
Options outstanding, December 31, 2002	625	\$ 58,228	300	\$ 32,392
Options written	450	57,598	900	137,445
Options terminated in closing purchase transactions			(100)	(10,143)
Options expired	(625)	(58,228)	(400)	(44,348)
Options outstanding, March 31, 2003	450	\$ 57,598	700	\$ 115,346

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	
	Three months ended March 31, 2003	Year ended December 31, 2002	Three months ended March 31, 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 8.5% and 8.9%, respectively)	(49,500)	(159,350)	(942,841)	(3,097,181)
Net change	(49,500)	362,504	\$ (942,841)	\$ 6,857,184



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NOTES TO FINANCIAL STATEMENTS (continued)

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The cost of the 64,400 shares of Common Stock held by the Corporation at March 31, 2003 and the 14,900 shares of Common Stock held at December 31, 2002 amounted to \$1,228,058 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 three months ended March 31, 2003, the Corporation granted options including stock appreciation rights for 21,258 shares of Common Stock with an exercise price of \$19.285. Stock options and stock appreciation rights relating to 25,943 shares, and having a weighted average exercise price of \$19.4609, were cancelled. At March 31, 2003, there were outstanding exercisable options to purchase 56,746 common shares at \$9.0317-\$25.2538 per share (weighted average price of \$16.0757) 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 4.6275 years and 6.9297 years, respectively. The total compensation expense for stock options and stock appreciation rights recognized for the three months ended March 31, 2003 was \$(6,322). At March 31, 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 March 31, 2003, the plan assets, consisting primarily of investments in individual stocks, bonds and mutual funds were \$3,916,196. 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 March 31, 2003 was \$4,233,752. Prepaid pension cost included in other assets at March 31, 2003 was \$1,445,775.

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 March 31, 2003 for employees and former employees of the Corporation was \$1,003,980. Aggregate remuneration paid or accrued during the three months ended March 31, 2003 to key employees and directors amounted to \$308,378.

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 March 31, 2003, the Corporation had securities on loan of \$36,408,208 and held collateral of \$38,293,707, consisting of cash, repurchase agreements, and commercial paper.

## FINANCIAL HIGHLIGHTS

	Three Months Ended		Year Ended December 31				
	(unaudited)		2002	2001	2000	1999	1998
	March 31, 2003	March 31, 2002					
<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	0.08	0.08	0.42	0.49	0.37	0.48	0.55
Net realized gains and change in unrealized appreciation (depreciation) and other changes	(0.48)	1.44	(3.20)	(6.81)	7.67	4.67	(3.73)
Total from investment operations	(0.40)	1.52	(2.78)	(6.32)	8.04	5.15	(3.18)
Less distributions							
Dividends from net investment income	(0.04)	(0.04)	(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	(0.13)	(0.13)	(1.11)	(1.50)	(1.74)	(1.55)	(1.53)
Capital share repurchases			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			(0.03)	0.03	0.07	(0.15)	(0.06)
Net asset value, end of period	\$20.45	\$26.29	\$20.98	\$24.90	\$32.69	\$26.32	\$22.87
Per share market price, end of period	\$19.19	\$25.25	\$19.18	\$23.46	\$27.31	\$21.50	\$20.42
<b>Total Investment Return</b>							
Based on market price	0.7%	8.2%	(13.7)%	(8.7)%	36.1%	13.3%	(10.0)%
Based on net asset value	(1.9)%	6.1%	(11.1)%	(19.0)%	33.1%	23.8%	(11.1)%
<b>Ratios/Supplemental Data</b>							
Net assets, end of period (in 000 s)	\$438,962	\$556,010	\$451,275	\$526,492	\$688,173	\$565,075	\$474,821
Ratio of expenses to average net assets	0.68%	0.62%	0.49%	0.35%	0.59%	0.43%	0.31%
Ratio of net investment income to average net assets	1.47%	1.22%	1.84%	1.67%	1.24%	1.86%	2.13%

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Portfolio turnover	3.89%	2.68%	9.69%	6.74%	7.68%	11.89%	12.70%
Number of shares outstanding at end of period (in 000 s)*	21,461	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

March 31, 2003

(unaudited)

	Shares	Value (A)
<b>Stocks And Convertible Securities 89.0%</b>		
<b>Energy 77.6%</b>		
<b>Internationals 26.5%</b>		
BP plc ADR (B)	500,000	\$19,295,000
ChevronTexaco Corp.	300,000	19,395,000
Exxon Mobil Corp.	1,050,000	36,697,500
Royal Dutch Petroleum Co.	660,000	26,895,000
Shell Transport and Trading Co., plc ADR	150,000	5,433,000
TotalFinaElf ADR (B)	140,000	8,857,800
		116,573,300
<b>Domestics 7.0%</b>		
Amerada Hess Corp.	50,000	2,213,000
ConocoPhillips	140,310	7,520,616
Kerr McGee Corp.	177,153	7,194,183
Murphy Oil Corp.	140,000	6,183,800
Unocal Capital Trust \$3.125 Conv. Pfd.	72,540	3,545,393
Unocal Corp.	150,000	3,946,500
		30,603,492
<b>Producers 13.8%</b>		
Anadarko Petroleum Corp.	250,000	11,375,000
Apache Corp.	147,000	9,075,780
Devon Energy Corp. (B)	80,000	3,857,600
EOG Resources, Inc.	200,000	7,912,000
Noble Energy	125,000	4,286,250
Occidental Petroleum Corp.	175,000	5,243,000
Ocean Energy, Inc.	480,000	9,600,000
Pioneer Natural Resources Co. (C)	235,000	5,898,500
Stone Energy Corp. (C)	104,300	3,502,394
		60,750,524
<b>Distributors 17.2%</b>		
Atmos Energy Corp.	139,500	2,965,770
Duke Energy Corp. 8.25% Conv. Pfd. due 2004 (B)	160,000	2,016,000
Duke Energy Corp. (B)	115,000	1,672,100
El Paso Corp. (B)	210,000	1,270,500
Energen Corp.	250,000	8,015,000
Equitable Resources Inc.	361,000	13,541,110
Keyspan Corp.	220,000	7,095,000
Kinder Morgan, Inc.	162,500	7,312,500
MDU Resources Group, Inc.	200,000	5,584,000
National Fuel Gas Co.	200,000	4,374,000
	<b>Shares</b>	<b>Value (A)</b>



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New Jersey Resources Corp.	277,500	\$ 9,060,375
Northwestern Corp. (B)(C)	200,000	420,000
Questar Corp. (B)	268,000	7,924,760
TECO Energy, Inc. (B)	200,000	2,126,000
Williams Companies, Inc. 9.0% FELINE PACS due 2005	120,000	1,119,600
Williams Companies, Inc.	200,000	916,000

75,412,715

**Services 13.1%**

Baker Hughes, Inc. (B)	130,000	3,890,900
BJ Services Co. (B)(C)	380,000	13,068,200
Core Laboratories N.V. (B)(C)	209,400	2,177,760
GlobalSantaFe Corp.	200,000	4,130,000
Grant Prideco Inc. (C)	308,000	3,714,480
Nabors Industries Ltd. (B)(C)	180,000	7,176,600
Noble Corp. (C)	135,000	4,241,700
Schlumberger Ltd.	190,000	7,221,900
Transocean Inc.	200,000	4,090,000
Weatherford International, Ltd. (B)(C)	205,000	7,742,850

57,454,390

**Basic Industries 11.4%**

**Basic Materials & Other 8.6%**

Albemarle Corp.	200,000	4,870,000
Arch Coal Inc. (B)	240,000	4,562,400
Engelhard Corp.	124,900	2,675,358
General Electric Co.	350,000	8,925,000
Ingersoll-Rand Co. Ltd.	100,000	3,859,000
Philadelphia Suburban Corp.	305,000	6,694,750
Rohm & Haas Co.	200,000	5,956,000

37,542,508

**Paper and Forest Products 2.8%**

Boise Cascade Corp. 7.5% ACES due 2004	51,000	1,962,990
Boise Cascade Corp.	205,000	4,479,250
MeadWestvaco Corp. (B)	60,000	1,366,800
Temple-Inland Inc. (B)	120,000	4,488,000

12,297,040

**Total Stocks And Convertible Securities**

(Cost \$284,358,676) (D)