

PETROLEUM & RESOURCES CORP

Form N-30B-2

October 19, 2005

**PETROLEUM & RESOURCES CORPORATION**

**Board of Directors**

Enrique R. Arzac <sup>1,3</sup>

Phyllis O. Bonanno <sup>1,3</sup>

Daniel E. Emerson <sup>2,3</sup>

Thomas H. Lenagh <sup>1,4</sup>

Kathleen T. McGahran <sup>2,4</sup>

Douglas G. Ober <sup>1</sup>

John J. Roberts <sup>1,3</sup>

Susan C. Schwab <sup>2,4</sup>

Robert J.M. Wilson <sup>1,2</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

Lawrence L. Hooper, Jr.

Maureen A. Jones

Nancy J.F. Prue

Christine M. Sloan

Geraldine H. Paré

*Chairman, President and Chief Executive Officer*

*Executive Vice President*

*Vice President, General Counsel and Secretary*

*Vice President, Chief Financial Officer and Treasurer*

*Vice President*

*Assistant Treasurer*

*Assistant Secretary*

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**Stock Data**

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Market Price (9/30/05)	\$ 34.95
Net Asset Value (9/30/05)	\$ 37.99
Discount:	8.0%

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 2005**

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From Investment Income	\$ 0.31
From Net Realized Gains	0.08
	<hr/>
Total	\$ 0.39
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**2005 Dividend Payment Dates**

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March 1, 2005

June 1, 2005

September 1, 2005

December 27, 2005\*

\*Anticipated

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**LETTER TO STOCKHOLDERS**

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We submit herewith the audited financial statements of the Corporation for the nine months ended September 30, 2005. In addition, there is a schedule of investments, along with other financial information.

Net assets of the Corporation at September 30, 2005 were \$37.99 per share on 21,312,356 shares outstanding, compared with \$28.16 per share at December 31, 2004 on 21,979,676 shares outstanding. On March 1, 2005, a distribution of \$0.13 per share was paid, consisting of \$0.06 from 2004 long-term capital gain, \$0.02 from 2004 short-term capital gain, \$0.03 from 2004 investment income and \$0.02 from 2005 investment income, all taxable in 2005. Investment income dividends of \$0.13 per share were paid on June 1, 2005 and September 1, 2005.

Net investment income for the nine months ended September 30, 2005 amounted to \$6,057,328, compared with \$6,912,160 for the same period in 2004. These earnings are equal to \$0.28 and \$0.32 per share on the average number of shares outstanding during each period.

Net capital gain realized on investments for the nine months ended September 30, 2005 amounted to \$21,517,676, the equivalent of \$1.01 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](http://www.peteres.com)). Also available at the website are a brief history of the Corporation, historical financial information, and other useful information. Further information regarding shareholder services is located on page 15 of this report.

It is with great sadness that we inform you that our director and former Chairman, W. David MacCallan, passed away on August 19. Mr. MacCallan was elected Chairman of the Board of the Corporation in 1971, and retired in 1991 while continuing to serve on the Board of Directors until his death. It was my great pleasure to work closely with Mr. MacCallan. His grasp of the nuances of the business of investing was rare in the industry and his loyalty to the Corporation and its shareholders was unswerving. We have lost a great leader and advisor. Our deepest sympathies go out to his immediate family as well as to his extended family.

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

By order of the Board of Directors,

Douglas G. Ober,

*Chairman, President and*

*Chief Executive Officer*

October 19, 2005

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**STATEMENT OF ASSETS AND LIABILITIES**


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September 30, 2005

(unaudited)

**Assets**

Investments\* at value:

Common stocks and convertible securities (cost \$305,540,183)	\$ 773,858,381	
Short-term investments (cost \$35,359,031)	35,359,031	
Securities lending collateral (cost \$21,931,392)	21,931,392	\$ 831,148,804
Cash		274,366
Receivables:		
Investment securities sold		1,578,836
Dividends and interest		648,938
Prepaid pension cost		1,124,383
Prepaid expenses and other assets		480,194
<b>Total Assets</b>		<b>835,255,521</b>

**Liabilities**

Investment securities purchased	111,300	
Open written option contracts at value (proceeds \$401,598)	1,024,300	
Obligations to return securities lending collateral	21,931,392	
Accrued expenses	2,485,813	
<b>Total Liabilities</b>	<b>25,552,805</b>	

<b>Net Assets</b>	<b>\$ 809,702,716</b>
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**Net Assets**

Common Stock at par value \$1.00 per share, authorized 50,000,000 shares; issued and outstanding 21,312,356 shares (includes 4,630 restricted shares and restricted stock units for 3,200 shares) (Note 6)	\$ 21,312,356
Additional capital surplus	299,253,815
Undistributed net investment income	(79,269)
Undistributed net realized gain on investments	21,520,318
Unrealized appreciation on investments	467,695,496
<b>Net Assets Applicable to Common Stock</b>	<b>\$ 809,702,716</b>
<b>Net Asset Value Per Share of Common Stock</b>	<b>\$37.99</b>

\* See Schedule of Investments on pages 9 and 10.

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

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**STATEMENT OF OPERATIONS**


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*Nine Months Ended September 30, 2005**(unaudited)*

<b>Investment Income</b>	
Income:	
Dividends	\$ 8,363,180
Interest and other income	993,046
<i>Total Income</i>	9,356,226
Expenses:	
Investment research	1,559,552
Administration and operations	855,183
Directors' fees	230,341
Reports and stockholder communications	139,199
Transfer agent, registrar and custodian expenses	117,439
Auditing and accounting services	63,145
Legal services	60,560
Occupancy and other office expenses	156,176
Travel, telephone and postage	50,103
Other	67,200
<i>Total Expenses</i>	3,298,898
<b>Net Investment Income</b>	6,057,328
<b>Realized Gain and Change in Unrealized Appreciation on Investments</b>	
Net realized gain on security transactions	21,517,676
Change in unrealized appreciation on investments	192,272,605
<b>Net Gain on Investments</b>	213,790,281
<b>Change in Net Assets Resulting from Operations</b>	\$ 219,847,609

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

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**STATEMENTS OF CHANGES IN NET ASSETS**


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	Nine Months Ended September 30, 2005	Year Ended December 31, 2004
	(unaudited)	
<b>From Operations:</b>		
Net investment income	\$ 6,057,328	\$ 8,924,453
Net realized gain on investments	21,517,676	18,979,327
Change in unrealized appreciation on investments	192,272,605	90,350,341
<i>Change in net assets resulting from operations</i>	219,847,609	118,254,121
<b>Distributions to Stockholders from:</b>		
Net investment income	(6,723,881)	(9,536,803)
Net realized gain from investment transactions	(1,756,892)	(19,037,472)
<i>Decrease in net assets from distributions</i>	(8,480,773)	(28,574,275)
<b>From Capital Share Transactions:</b>		
Value of shares issued in payment of distributions		9,629,174
Cost of shares purchased (Note 4)	(20,623,692)	(3,362,898)
Deferred compensation (Notes 4,6)	72,171	
<i>Change in net assets from capital share transactions</i>	(20,551,521)	6,266,276
<b>Total Increase in Net Assets</b>	190,815,315	95,946,122
<b>Net Assets:</b>		
Beginning of period	618,887,401	522,941,279
End of period (including undistributed net investment income of \$(79,269) and \$746,047, respectively)	\$ 809,702,716	\$ 618,887,401

*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 at September 30, 2005 was \$340,869,391, and net unrealized appreciation aggregated \$468,348,021, of which the related gross unrealized appreciation and depreciation were \$473,122,258 and \$4,774,237, 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.



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Purchases and sales of portfolio securities, other than options and short-term investments, during the nine months ended September 30, 2005 were \$51,916,315 and \$63,163,350, 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 September 30, 2005 can be found on page 12.

Transactions in written covered call and collateralized put options during the nine months ended September 30, 2005 were as follows:

	Covered Calls		Collateralized Puts	
	Contracts	Premiums	Contracts	Premiums
Options outstanding, December 31, 2004	1,550	\$ 204,167	1,470	\$ 167,283
Options written	6,130	744,472	3,550	356,616
Options terminated in closing purchase transactions	(1,210)	(157,175)		
Options expired	(1,550)	(152,585)	(4,220)	(419,428)
Options exercised	(2,880)	(341,752)		
Options outstanding, September 30, 2005	2,040	\$ 297,127	800	\$ 104,471

#### 4. CAPITAL STOCK

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

On December 27, 2004, the Corporation issued 380,149 shares of its Common Stock at a price of \$25.33 per share (the average market price on December 13, 2004) to stockholders of record on November 23, 2004 who elected to take stock in payment of the year-end distribution from 2004 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.

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**


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Transactions in Common Stock for 2005 and 2004 were as follows:

	Shares		Amount	
	Nine months ended September 30, 2005	Year ended December 31, 2004	Nine months ended September 30, 2005	Year ended December 31, 2004
Shares issued in payment of dividends		380,149	\$	\$ 9,629,174
Shares purchased (at a weighted average discount from net asset value of 8.0% and 8.0%, respectively)	(675,550)	(137,250)	(20,623,692)	(3,362,898)
Restricted shares/units granted under the equity incentive compensation plan	8,230		72,171	
Net change	(667,320)	242,899	\$ (20,551,521)	\$ 6,266,276

## 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 nine months ended September 30, 2005, the Corporation contributed \$447,718 to the plans. The Corporation anticipates contributing additional amounts to the plans approximating \$7,802 during the remainder of 2005.

The following table aggregates the components of the plans' net periodic pension cost for the nine months ended September 30, 2005.

Service Cost	\$ 138,876
Interest Cost	210,816
Expected return on plan assets	(208,119)
Amortization of prior service cost	41,185
Amortization of net loss	135,185
Net periodic pension cost	\$ 317,943

The Corporation also sponsors a defined contribution plan that covers substantially all employees. For the nine months ended September 30, 2005, the Corporation expensed contributions of \$64,528. 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 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 ( 2005 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 September 30, 2005, and changes during the period then ended is presented below:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
Outstanding at January 1, 2005	128,543	\$ 18.81	
Exercised	(20,127)	16.29	
Forfeited			
Outstanding at September 30, 2005	108,416	\$ 19.19	5.16
Exercisable at September 30, 2005	47,242	\$ 19.05	4.79

The options outstanding as of September 30, 2005 are set forth below:

Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
\$14.00-\$16.49	21,317	\$ 14.44	1.33
\$16.50-\$18.99	32,301	17.53	0.33
0.33 \$19.00-\$21.49	23,057	20.84	3.94
\$21.50-\$24.00	31,741	22.87	3.03
Outstanding at September 30, 2005	108,416	\$ 19.19	5.16

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

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**


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date through the date of settlement. The total compensation cost recognized for the nine months ended September 30, 2005 was \$927,998.

The 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. Restricted stock was granted to key employees on April 27, 2005 at fair market value on that date, vesting over a three year period. Restricted stock units were granted to non-employee directors on April 27, 2005 at fair market value on that date and vest over a one year period. The total fair value of units that vested in 2005 was \$12,500. The number of shares of Common Stock which remain available for future grants under the Plan at September 30, 2005 is 864,409 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 awards that are later forfeited are reclassified to compensation expense.

A summary of the status of the Corporation's awards granted as of September 30, 2005, and changes during the period then ended is presented below:

Awards	Shares/ Units	Grant-Date Fair Value
Balance at January 1, 2005		
Granted:		
Restricted stock	4,630	\$ 28.06
Restricted stock units	3,600	28.06
Vested	(400)	31.25
Forfeited		
Balance at September 30, 2005	7,830	\$ 28.06

Compensation costs resulting from restricted stock and restricted stock units granted under the 2005 Plan are recognized over the requisite service period based on the fair value of the awards on grant date. Any unearned compensation is included in Undistributed net investment income and is subsequently expensed as services are rendered. The fair value of restricted shares is based on the average of the high and low market price on the date an award is granted. The total compensation costs for restricted stock granted to employees for the nine months ended September 30, 2005 were \$21,663. The total compensation costs for restricted stock units granted to non-employee directors under the 2005 Plan for the nine months ended September 30, 2005 were \$50,508. As of September 30, 2005, there were \$158,763 of total unrecognized compensation costs 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 1.95 years.

## 7. EXPENSES

The aggregate remuneration paid or accrued during the nine months ended September 30, 2005 to officers and directors amounted to \$1,206,214, of which \$230,341 was paid as fees to directors who were not officers.

**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 September 30, 2005, the Corporation had securities on loan of \$21,424,366 and held collateral of \$21,931,392, 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.

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**FINANCIAL HIGHLIGHTS**


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	Nine Months Ended		Year Ended December 31				
	(unaudited)						
	September 30, 2005	September 30, 2004	2004	2003	2002	2001	2000
<b>Per Share Operating Performance</b>							
Net asset value, beginning of period	\$28.16	\$24.06	\$24.06	\$20.98	\$24.90	\$32.69	\$26.32
Net investment income	0.28	0.32	0.41	0.38	0.42	0.49	0.37
Net realized gains and increase (decrease) in unrealized appreciation	9.86	3.89	5.05	3.89	(3.20)	(6.81)	7.67
Total from investment operations	10.14	4.21	5.46	4.27	(2.78)	(6.32)	8.04
Less distributions							
Dividends from net investment income	(0.31)	(0.30)	(0.44)	(0.38)	(0.43)	(0.43)	(0.39)
Distributions from net realized gains	(0.08)	(0.09)	(0.88)	(0.81)	(0.68)	(1.07)	(1.35)
Total distributions	(0.39)	(0.39)	(1.32)	(1.19)	(1.11)	(1.50)	(1.74)
Capital share repurchases	0.08	0.01	0.01	0.02	0.01	0.06	0.28
Reinvestment of distributions			(0.05)	(0.02)	(0.04)	(0.03)	(0.21)
Total capital share transactions	0.08	0.01	(0.04)	0.00	(0.03)	0.03	0.07
<b>Net asset value, end of period</b>	<b>\$37.99</b>	<b>\$27.89</b>	<b>\$28.16</b>	<b>\$24.06</b>	<b>\$20.98</b>	<b>\$24.90</b>	<b>\$32.69</b>
Per share market price, end of period	\$34.95	\$26.34	\$25.78	\$23.74	\$19.18	\$23.46	\$27.31
<b>Total Investment Return</b>							
Based on market price	37.3%	12.7%	14.4%	30.8%	(13.7)%	(8.7)%	36.1%
Based on net asset value	36.6%	17.8%	23.3%	21.2%	(11.1)%	(19.0)%	33.1%
<b>Ratios/Supplemental Data</b>							
Net assets, end of period (in 000 \$)	\$809,703	\$603,473	\$618,887	\$522,941	\$451,275	\$526,492	\$688,173
Ratio of expenses to average net assets	0.63%	0.56%	0.56%	0.74%	0.49%	0.35%	0.59%
Ratio of net investment income to average net assets	1.16%	1.67%	1.58%	1.75%	1.84%	1.67%	1.24%
Portfolio turnover	10.62%	12.36%	13.44%	10.20%	9.69%	6.74%	7.68%
Number of shares outstanding at end of period (in 000 \$)	21,312	21,636	21,980	21,737	21,510	21,148	21,054

*Ratios presented on an annualized basis.*

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**SCHEDULE OF INVESTMENTS**


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September 30, 2005

(unaudited)

	<u>Shares</u>	<u>Value (A)</u>
<b>Stocks And Convertible Securities 95.6%</b>		
<b>Energy 85.8%</b>		
<b>Internationals 23.5%</b>		
BP plc ADR	600,000	\$ 42,510,000
Chevron Corp.	635,000	41,103,550
Exxon Mobil Corp.	1,140,000	72,435,600
Royal Dutch Shell plc ADR	275,000	18,051,000
Total S.A. ADR	120,000	16,298,400
		<hr/>
		190,398,550
		<hr/>
<b>Domestics 11.6%</b>		
Alon USA Energy, Inc. (B)	6,000	144,900
Amerada Hess Corp.	65,000	8,937,500
ConocoPhillips	560,000	39,149,600
Holly Corp.	210,000	13,435,800
Kerr-McGee Corp.	107,647	10,453,600
Murphy Oil Corp.	256,400	12,786,668
Valero Energy Corp.	80,000	9,044,800
		<hr/>
		93,952,868
		<hr/>
<b>Producers 20.4%</b>		
Apache Corp.	177,000	13,313,940
Burlington Resources Inc.	246,800	20,069,776
Devon Energy Corp.	355,000	24,367,200
EOG Resources, Inc. (C)	345,000	25,840,500
Newfield Exploration Co. (B)	175,000	8,592,500
Noble Energy, Inc. (C)	430,000	20,167,000
Occidental Petroleum Corp.	200,000	17,086,000
Pioneer Natural Resources Co.	291,000	15,981,720
XTO Energy Inc.	435,000	19,714,200
		<hr/>
		165,132,836
		<hr/>
<b>Distributors 13.1%</b>		
AGL Resources Inc.	197,000	7,310,670
Duke Energy Corp. (C)	217,624	6,348,092
Energen Corp.	400,000	17,304,000
Equitable Resources Inc.	450,000	17,577,000
Keyspan Corp.	70,000	2,574,600
MDU Resources Group, Inc.	250,000	8,912,500
National Fuel Gas Co.	200,000	6,840,000

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New Jersey Resources Corp.	223,800	10,290,325
Questar Corp.	200,000	17,624,000
Williams Companies, Inc.	450,000	11,272,500

106,053,687

	Shares	Value (A)
<b>Services 17.2%</b>		
Baker Hughes, Inc.	130,000	\$ 7,758,400
BJ Services Co.	740,000	26,632,600
GlobalSantaFe Corp.	290,000	13,229,800
Grant Prideco Inc. (B)	308,000	12,520,200
Nabors Industries Ltd. (B)	260,000	18,675,800
Noble Corp. (B)	185,000	12,665,100
Precision Drilling Corp. (B)	200,000	9,840,000
Schlumberger Ltd.	280,000	23,626,400
Weatherford International, Ltd. (B)	205,000	14,075,300
		139,023,600

**Basic Industries 9.8%**

**Basic Materials & Other 9.4%**

Air Products and Chemicals, Inc.	125,000	6,892,500
Aqua America, Inc.	315,000	11,976,300
Arch Coal Inc.	160,000	10,800,000
Consol Energy Inc.	158,700	12,104,049
du Pont (E.I.) de Nemours and Co.	157,500	6,169,275
General Electric Co.	454,800	15,313,116
Martin Marietta Materials, Inc.	60,000	4,707,600
Rohm & Haas Co.	200,000	8,226,000
		76,188,840

**Paper & Forest Products 0.4%**

Smurfit-Stone Container Corp. (B)	300,000	3,108,000
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**Total Stocks And Convertible Securities**

(Cost \$305,540,183) (D)		\$ 773,858,381
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**SCHEDULE OF INVESTMENTS (CONTINUED)**


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September 30, 2005

(unaudited)

	<u>Prin. Amt.</u>	<u>Value (A)</u>
<b>Short-Term Investments 4.3%</b>		
<b>U.S. Government Obligations 1.8%</b>		
U.S. Treasury Bills, 3.39%, due 11/17/05	\$ 15,000,000	\$ 14,933,613
<b>Time Deposit 0.0%</b>		
Brown Brothers Harriman & Co., 3.31%, due 10/3/05		58,355
<b>Commercial Paper 2.5%</b>		
American General Finance Corp., 3.76%, due 10/18/05	5,000,000	4,991,122
ChevronTexaco Funding Corp., 3.60-3.66%, due 10/4/05-10/11/05	5,900,000	5,897,513
General Electric Capital Corp., 3.78%, due 11/3/05	4,900,000	4,883,022
Toyota Motor Credit Corp., 3.70%, due 10/6/05-10/13/05	4,600,000	4,595,406
		20,367,063
<b>Total Short-Term Investments</b> (Cost \$35,359,031)		\$ 35,359,031
		<u>Value (A)</u>
<b>Securities Lending Collateral 2.7%</b>		
Brown Brothers Investment Trust, 3.75%, due 10/3/05	\$ 21,931,392	
<b>Total Securities Lending Collateral</b> (Cost \$21,931,392)		21,931,392
<b>Total Investments 102.6%</b> (Cost \$362,830,606)		831,148,804
Cash, receivables, prepaid expenses and other assets, less liabilities 2.6%		(21,446,088)
<b>Net Assets 100.0%</b>	\$	809,702,716

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Notes:

(A) See note 1 to financial statements. Securities are listed on the New York Stock Exchange, the American Stock Exchange, or the NASDAQ.

(B) Presently non-dividend paying.

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- (C) Some or all of these securities are on loan. See note 8 to financial statements.
- (D) The aggregate market value of stocks held in escrow at September 30, 2005 covering open call option contracts written was \$16,195,940. In addition, the aggregate market value of securities segregated by the Corporation's custodian required to collateralize open put option contracts written was \$5,050,000.

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**PORTFOLIO SUMMARY**


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*September 30, 2005**(unaudited)***TEN LARGEST PORTFOLIO HOLDINGS**

	<i>Market Value</i>	<i>% of Net Assets</i>
Exxon Mobil Corp.	\$ 72,435,600	8.9
BP plc ADR	42,510,000	5.3
Chevron Corp.	41,103,550	5.1
ConocoPhillips	39,149,600	4.8
BJ Services Co.	26,632,600	3.3
EOG Resources, Inc.	25,840,500	3.2
Devon Energy Corp.	24,367,200	3.0
Schlumberger Ltd.	23,626,400	2.9
Noble Energy, Inc.	20,167,000	2.5
Burlington Resources Inc.	20,069,776	2.5
	<hr/>	<hr/>
Total	\$ 335,902,226	41.5%
	<hr/>	<hr/>

**SECTOR WEIGHTINGS**

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**SCHEDULE OF OUTSTANDING OPTION CONTRACTS**


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September 30, 2005

(unaudited)

Contracts		Contract		
(100 shares		Strike	Expiration	Appreciation/
each)	Security	Price	Date	(Depreciation)
<b>COVERED CALLS</b>				
100	EOG Resources, Inc.	\$ 85	Jan 06	\$ (801)
150	EOG Resources, Inc.	70	Oct 05	(72,452)
100	EOG Resources, Inc.	70	Jan 06	(70,801)
100	Kerr-McGee Corp.	80	Oct 05	(152,301)
200	Kerr-McGee Corp.	95	Oct 05	(48,041)
200	Martin Marietta Materials, Inc.	70	Oct 05	(143,601)
40	Martin Marietta Materials, Inc.	75	Oct 05	(9,320)
100	Martin Marietta Materials, Inc.	75	Jan 06	(60,300)
200	Murphy Oil Corp.	60	Oct 05	7,700
250	Pioneer Natural Resources Co.	50	Dec 05	(146,001)
250	Royal Dutch Shell plc ADR	70	Jan 06	(8,251)
150	Schlumberger Ltd.	100	Jan 06	7,799
50	Total S.A. ADR	135	Oct 05	(3,351)
100	Total S.A. ADR	140	Oct 05	2,699
50	Total S.A. ADR	140	Nov 05	(4,150)
<hr/>				<hr/>
2,040				(701,172)
<hr/>				<hr/>
<b>COLLATERALIZED PUTS</b>				
200	Exxon Mobil Corp.	50	Oct 05	24,398
150	Exxon Mobil Corp.	55	Oct 05	16,800
150	Exxon Mobil Corp.	55	Jan 06	15,299
100	Martin Marietta Materials, Inc.	65	Jan 06	7,949
100	Valero Energy Corp.	90	Oct 05	8,825
100	Valero Energy Corp.	85	Dec 05	5,199
<hr/>				<hr/>
800				78,470
<hr/>				<hr/>
				\$ (622,702)
				<hr/>

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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 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.

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**CHANGES IN PORTFOLIO SECURITIES**


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*During the Three Months Ended September 30, 2005*

*(unaudited)*

	Shares		
	Additions	Reductions	Held September 30, 2005
Alon USA Energy, Inc.	6,000		6,000
Arch Coal Inc.	70,000		160,000
BJ Services Co.	370,000 <sup>(1)</sup>		740,000
Equitable Resources Inc.	225,000 <sup>(1)</sup>		450,000
Newfield Exploration Co.	5,000		175,000
Noble Energy, Inc.	215,000 <sup>(1)</sup>		430,000
Valero Energy Corp.	80,000		80,000
Royal Dutch Shell plc ADR	385,000 <sup>(2)</sup>	110,000	275,000
XTO Energy Inc.	6,667		435,000
AGL Resources Inc.		53,000	197,000
Amerada Hess Corp.		10,000	65,000
duPont (E.I.) de Nemours and Co.		17,500	157,500
EOG Resources, Inc.		15,000	345,000
Holly Corp.		15,000	210,000
Kerr-McGee Corp.		10,000	107,647
Martin Marietta Materials, Inc.		10,400	60,000
Murphy Oil Corp.		20,000	256,400
New Jersey Resources Corp.		53,700	223,800
Royal Dutch Petroleum Co. ADR		385,000 <sup>(2)</sup>	

<sup>(1)</sup> By  
stock  
split.

<sup>(2)</sup> By  
conversion.

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**HISTORICAL FINANCIAL STATISTICS**


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December 31

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	<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>
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
2004	618,887,401	21,979,676	28.16	.44	.88
September 30, 2005 (unaudited)	809,702,716	21,312,356	37.99	.31	.08

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

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## OTHER INFORMATION

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### 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](http://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](http://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, 2005 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.



**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.

**Independent Registered Public Accounting Firm:** PricewaterhouseCoopers LLP

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

**Custodian of Securities:** Brown Brothers Harriman & Co.

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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
<i>To transfer shares to another participant or to a new participant</i>	

***Fees are subject to change at any time.***

**Minimum and Maximum Cash Investments**

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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.

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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 are no fees or commissions in connection with this dividend and capital gain distribution when made in newly issued shares.