

PETROLEUM & RESOURCES CORP  
Form N-30B-2  
April 18, 2008

**PETROLEUM & RESOURCES CORPORATION**

**Board of Directors**

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Phyllis O. Bonanno<sup>1,4,5</sup>  
Kenneth J. Dale<sup>3,4</sup>  
Daniel E. Emerson<sup>1,3,5</sup>  
Frederic A. Escherich<sup>2,3</sup>

1. *Member of Executive Committee*
2. *Member of Audit Committee*
3. *Member of Compensation Committee*
4. *Member of Retirement Benefits Committee*
5. *Member of Nominating and Governance Committee*

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Thomas H. Lenagh<sup>2,3</sup>  
Kathleen T. McGahran<sup>1,4,5</sup>  
Douglas G. Ober<sup>1</sup>  
Craig R. Smith<sup>2,4</sup>

**Officers**

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Robert E. Sullivan  
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*  
*Executive Vice President*  
*Vice President, General Counsel and Secretary*  
*Vice President, Chief Financial Officer and Treasurer*  
*Vice President*  
*Assistant Treasurer*  
*Assistant Secretary*

**Stock Data**

|                           |          |
|---------------------------|----------|
| Market Price (3/31/08)    | \$ 36.43 |
| Net Asset Value (3/31/08) | \$ 41.18 |
| Discount:                 | 11.5%    |

New York Stock Exchange ticker symbol: PEO

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NASDAQ Mutual Fund Quotation Symbol: XPEOX

Newspaper stock listings are generally under the abbreviation: PetRs

**Distributions in 2008**

|   |         |
|---|---------|
| From Investment Income (paid or declared) | \$ 0.17 |
| From Net Realized Gains                   | 0.09    |
| Total                                     | \$ 0.26 |

**2008 Dividend Payment Dates**

March 1, 2008

June 1, 2008

September 1, 2008\*

December 27, 2008\*

\*Anticipated

## LETTER TO STOCKHOLDERS

We submit herewith the financial statements of the Petroleum & Resources Corporation (the Corporation) for the three months ended March 31, 2008. In addition, there are provided a schedule of investments and other financial information.

Net assets of the Corporation at March 31, 2008 were \$41.18 per share on 22,698,284 shares outstanding, compared with \$42.99 per share at December 31, 2007 on 22,768,250 shares outstanding. On March 1, 2008, a distribution of \$0.13 per share was paid, consisting of \$0.05 from 2007 long-term capital gain, \$0.04 from 2007 short-term capital gain, \$0.03 from 2007 investment income, and \$0.01 from 2008 investment income, all taxable in 2008. On April 10, 2008 an investment income dividend of \$0.13 per share was declared to stockholders of record May 15, 2008, payable June 1, 2008.

Net investment income for the three months ended March 31, 2008 amounted to \$1,941,993, compared with \$1,934,035 for the same three month period in 2007. These earnings are equal to \$0.09 per share in each period.

Net capital gain realized on investments for the three months ended March 31, 2008 amounted to \$4,711,402, or \$0.21 per share.

For the three months ended March 31, 2008, the total return on net asset value (with dividends and capital gains reinvested) of shares of the Corporation was (3.9)%. The total return on the market value of the Corporation's shares for the period was (5.4)%. These compare to a (6.5)% change in the Dow Jones Oil and Gas Index and a (9.4)% total return for the Standard & Poor's 500 Composite Stock Index over the same time period.

For the twelve months ended March 31, 2008, the Corporation's total return on net asset value was 19.7% and on market value was 17.3%. Comparable figures for the Dow Jones Oil & Gas Index and the S&P 500 were 21.0% and (5.1)%, respectively.

The Annual Meeting was held on March 13, 2008 in Baltimore, Maryland. The results of the voting at the Annual Meeting are shown on page 14.

Current and potential stockholders 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, on our website at [www.peteres.com](http://www.peteres.com). Also available on the website are a brief history of the Corporation, historical financial information, and other useful content. Further information regarding stockholder services is located on page 15 of this report.

By order of the Board of Directors,

Douglas G. Ober,

*Chairman, President and*

*Chief Executive Officer*

April 11, 2008

## STATEMENT OF ASSETS AND LIABILITIES

March 31, 2008

(unaudited)

|  |                |                  |
|--|----------------|------------------|
| <b>Assets</b>  |                |                  |
| Investments* at value:   |                |                  |
| Common stocks and convertible securities<br>(cost \$366,034,527)   | \$ 927,649,256 |                  |
| Short-term investments (cost \$8,709,921)  | 8,709,921      |                  |
| Securities lending collateral (cost \$64,411,555)  | 64,411,555     | \$ 1,000,770,732 |
| Cash   |                | 249,833          |
| Receivables:   |                |                  |
| Investment securities sold   |                | 11,210           |
| Dividends and interest   |                | 638,541          |
| Prepaid expenses and other assets  |                | 623,147          |
| <i>Total Assets</i>  |                | 1,002,293,463    |
| <b>Liabilities</b>   |                |                  |
| Open written option contracts at value (proceeds \$113,889)  |                | 78,000           |
| Obligations to return securities lending collateral  |                | 64,411,555       |
| Accrued expenses   |                | 3,186,363        |
| <i>Total Liabilities</i>   |                | 67,675,918       |
| <b>Net Assets</b>  |                | \$ 934,617,545   |
| <b>Net Assets</b>  |                |                  |
| Common Stock at par value \$0.001 per share, authorized 50,000,000 shares;<br>issued and outstanding 22,698,284 shares (includes 33,476 restricted shares, 4,000 restricted stock units,<br>and 2,413 deferred stock units) (Note 6) |                | \$ 22,698        |
| Additional capital surplus   |                | 370,063,832      |
| Accumulated other comprehensive income (Note 5)  |                | (2,084,151)      |
| Undistributed net investment income  |                | 358,600          |
| Undistributed net realized gain on investments   |                | 4,605,948        |
| Unrealized appreciation on investments   |                | 561,650,618      |
| <b>Net Assets Applicable to Common Stock</b>   |                | \$ 934,617,545   |
| <b>Net Asset Value Per Share of Common Stock</b>   |                | \$41.18          |

\* See Schedule of Investments on page 10.

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

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**STATEMENT OF OPERATIONS**

*Three Months Ended March 31, 2008*

*(unaudited)*

|   |                        |
|---|------------------------|
| <b>Investment Income</b>  |                        |
| Income:   |                        |
| Dividends   | \$ 2,920,838           |
| Interest and other income   | 267,613                |
| <i>Total income</i>   | <i>3,188,451</i>       |
| Expenses:   |                        |
| Investment research   | 464,163                |
| Administration and operations   | 333,572                |
| Directors' fees   | 101,511                |
| Insurance   | 75,056                 |
| Reports and stockholder communications                                    | 50,762                 |
| Transfer agent, registrar and custodian expenses                          | 38,845                 |
| Investment research services  | 37,942                 |
| Occupancy and other office expenses                                       | 34,957                 |
| Auditing and accounting services  | 28,312                 |
| Travel, telephone and postage   | 24,744                 |
| Legal services  | 13,327                 |
| Other   | 43,267                 |
| <i>Total expenses</i>   | <i>1,246,458</i>       |
| <b>Net Investment Income</b>  | <b>1,941,993</b>       |
| <b>Other Comprehensive Income</b> (Note 5)                                | <b>(27,259)</b>        |
| <b>Realized Gain and Change in Unrealized Appreciation on Investments</b> |                        |
| Net realized gain on security transactions                                | 4,711,402              |
| Change in unrealized appreciation on investments                          | (45,250,672)           |
| <b>Net Loss on Investments</b>  | <b>(40,539,270)</b>    |
| <b>Change in Net Assets Resulting from Operations</b>                     | <b>\$ (38,624,536)</b> |

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

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**STATEMENTS OF CHANGES IN NET ASSETS**

|  | Three Months Ended<br>March 31, 2008<br>(unaudited) | Year Ended<br>December 31, 2007 |
|--|---|---------------------------------|
| <b>From Operations:</b>  |   |                                 |
| Net investment income  | \$ 1,941,993  | \$ 10,070,758                   |
| Net realized gain on investments   | 4,711,402   | 82,692,239                      |
| Change in unrealized appreciation on investments   | (45,250,672)  | 144,503,271                     |
| Other comprehensive income (Note 5)  | (27,259)  | (89,917)                        |
| <i>Change in net assets resulting from operations</i>  | (38,624,536)  | 237,176,351                     |
| <b>Distributions to Stockholders from:</b>   |   |                                 |
| Net investment income  | (908,211)   | (10,678,823)                    |
| Net realized gain from investment transactions   | (2,047,321)   | (82,870,511)                    |
| <i>Decrease in net assets from distributions</i>   | (2,955,532)   | (93,549,334)                    |
| <b>From Capital Share Transactions:</b>  |   |                                 |
| Value of shares issued in payment of distributions   | 3,192   | 41,992,828                      |
| Cost of shares purchased (Note 4)  | (2,916,232)   | (19,224,514)                    |
| Deferred compensation (Notes 4,6)  | 190,824   | 477,259                         |
| <i>Change in net assets from capital share transactions</i>                                      | (2,722,216)   | 23,245,573                      |
| <b>Total Change in Net Assets</b>  | (44,302,284)  | 166,872,590                     |
| <b>Net Assets:</b>   |   |                                 |
| Beginning of period  | 978,919,829   | 812,047,239                     |
| End of period (including undistributed net investment income of \$358,600 and \$0, respectively) | \$ 934,617,545                                      | \$ 978,919,829                  |

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

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**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**
**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 is an internally-managed fund emphasizing petroleum and other natural resource investments. The investment objectives of the Corporation are preservation of capital, the attainment of reasonable income from investments, and an opportunity for capital appreciation.

**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 stockholders are recognized on the ex-dividend date, and interest income is recognized on the accrual basis.

**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 which approximates fair value. Purchased and written options are valued at the last quoted asked price.

The Corporation adopted Financial Accounting Standard Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements ( FAS 157 ), effective January 1, 2008. There was no impact on the fair value of assets individually or in aggregate upon adoption. In accordance with FAS 157, fair value is defined as the price that the Corporation would receive upon selling an investment in an orderly transaction to an independent buyer. FAS 157 established a three-tier hierarchy to establish classification of fair value measurements, summarized as follows:

- Level 1 fair value is determined based on market data obtained from independent sources; for example, quoted prices in active markets for identical investments,
- Level 2 fair value is determined using other assumptions obtained from independent sources; for example, quoted prices for similar investments,
- Level 3 fair value is determined using the Corporation's own assumptions, developed based on the best information available in the circumstances.

The Corporation's investments at March 31, 2008 are classified as follows:

|         | Investment in<br>securities | Written options |
|---------|-----------------------------|-----------------|
| Level 1 | \$ 927,649,256              | \$78,000        |



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|         |                  |           |
|---------|------------------|-----------|
| Level 2 | 73,121,476*      |           |
| Level 3 |                  |           |
| Total   | \$ 1,000,770,732 | \$ 78,000 |

\* Comprised of short-term investments and securities lending collateral.

### 2. FEDERAL INCOME TAXES

The Corporation's policy is to distribute all of its taxable income to its stockholders 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 March 31, 2008 was \$439,126,180 and net unrealized appreciation aggregated \$561,644,552, of which the related gross unrealized appreciation and depreciation were \$567,494,867 and \$5,850,315, 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. Any income tax-related interest or penalties would be classified as income tax expense.

### 3. INVESTMENT TRANSACTIONS

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

Purchases and sales of portfolio securities, other than options and short-term investments, during the three months ended March 31, 2008 were \$27,574,793 and \$8,253,529, 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 March 31, 2008 can be found on page 12.

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Transactions in written covered call and collateralized put options during the three months ended March 31, 2008 were as follows:

|   | Covered Calls |            | Collateralized Puts |           |
|---|---------------|------------|---------------------|-----------|
|   | Contracts     | Premiums   | Contracts           | Premiums  |
| Options outstanding, December 31, 2007              | 725           | \$ 87,378  | 650                 | \$ 69,304 |
| Options written                                     | 1,150         | 134,631    | 200                 | 24,900    |
| Options terminated in closing purchase transactions | (150)         | (20,550)   | (250)               | (25,195)  |
| Options expired                                     | (825)         | (87,570)   | (600)               | (69,009)  |
| Options exercised                                   |               |            |                     |           |
| Options outstanding, March 31, 2008                 | 900           | \$ 113,889 |                     | \$        |

#### 4. CAPITAL STOCK

The Corporation has 5,000,000 authorized and unissued preferred shares, \$0.001 par value.

On December 27, 2007, the Corporation issued 1,109,759 shares of its Common Stock at a price of \$37.825 per share (the average market price on December 11, 2007) to stockholders of record on November 21, 2007 who elected to take stock in payment of the distribution from 2007 capital gain and investment income. In addition, 446 shares were issued at a weighted average price of \$36.09 per share as dividend equivalents to holders of deferred stock units and restricted stock units under the 2005 Equity Incentive Compensation Plan.

During 2008, the Corporation has issued 278 shares of its Common Stock at a weighted average price of \$37.29 per share as dividend equivalents to holders of deferred stock units and restricted stock units under the 2005 Equity Incentive Compensation Plan.

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

Transactions in Common Stock for 2008 and 2007 were as follows:

|  | Shares                            |                              | Amount                            |                              |
|--|-----------------------------------|------------------------------|-----------------------------------|------------------------------|
|  | Three months ended March 31, 2008 | Year ended December 31, 2007 | Three months ended March 31, 2008 | Year ended December 31, 2007 |
|  | 278                               | 1,110,205                    | \$ 3,192                          | \$ 41,992,828                |

|  |          |           |                |               |
|--|----------|-----------|----------------|---------------|
| Shares issued in payment of dividends  |          |           |                |               |
| Shares purchased (at a weighted average discount from net asset value of 10.9% and 9.9%, respectively) | (84,200) | (538,375) | (2,916,232)    | (19,224,514)  |
| Net activity under the Equity-Based Compensation Plans   | 13,956   | 15,553    | 190,824        | 477,259       |
| Net change   | (69,966) | 587,383   | \$ (2,722,216) | \$ 23,245,573 |

## 5. RETIREMENT PLANS

The Corporation's non-contributory qualified defined benefit pension plan covers all employees with at least one year of service. In addition, the Corporation has a non-contributory 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 funded status of the plans is recognized as an asset (overfunded plan) or a liability (underfunded plan) in the Statement of Assets and Liabilities. Changes in the prior service costs and accumulated actuarial gains and losses are recognized as accumulated other comprehensive income, a component of net assets, in the year in which the changes occur.

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 three months ended March 31, 2008, the Corporation contributed \$7,802 to the plans and expects to contribute an additional \$225,000 to the plans during the remainder of 2008.

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

The following table aggregates the components of the plans' net periodic pension cost.

|                                    | Three months<br>ended<br>March 31,<br>2008 | Year ended<br>December 31,<br>2007 |
|------------------------------------|--|------------------------------------|
| Service Cost                       | \$ 69,880                                  | \$ 348,352                         |
| Interest Cost                      | 87,417                                     | 374,693                            |
| Expected return on plan assets     | (70,278)                                   | (368,752)                          |
| Amortization of prior service cost | 8,976                                      | 37,717                             |
| Amortization of net loss           | 57,978                                     | 226,165                            |
| Net periodic pension cost          | \$ 153,973                                 | \$ 618,175                         |

The Corporation also sponsors a defined contribution plan that covers substantially all employees. For the three months ended March 31, 2008, the Corporation expensed contributions of \$30,635. The Corporation does not provide postretirement medical benefits.

## 6. EQUITY-BASED COMPENSATION

Although the Stock Option Plan of 1985 ( 1985 Plan ) has been discontinued and no further grants will be made under this plan, unexercised grants of stock options and stock appreciation rights granted in 2004 and prior years remain outstanding. The exercise price of the unexercised options and related stock appreciation rights is the fair market value on date of grant, reduced by the per share amount of capital gains paid by the Corporation during subsequent years. All options and related stock appreciation rights terminate 10 years from date of grant, if not exercised.

A summary of option activity under the 1985 Plan as of March 31, 2008, and changes during the nine month period then ended is presented below:

|                                  | Options | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Life (Years) |
|----------------------------------|---------|---|---|
| Outstanding at December 31, 2007 | 49,681  | \$ 11.53                                  | 3.68  |
| Exercised                        | (7,073) | 12.09                                     |   |
| Outstanding at March 31, 2008    | 42,608  | \$ 11.34                                  | 3.49  |
| Exercisable at March 31, 2008    | 17,055  | \$ 9.26                                   | 2.73  |

The options outstanding as of March 31, 2008 are set forth below:

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| Exercise Price                | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life (Years) |
|-------------------------------|---------------------|---------------------------------|---|
| \$5.00-\$7.74                 | 3,975               | \$ 5.80                         | 0.75                                    |
| \$7.75-\$10.49                | 14,847              | 9.12                            | 3.85                                    |
| \$10.50-\$13.24               | 10,372              | 12.31                           | 3.75                                    |
| \$13.25-\$16.00               | 13,414              | 14.70                           | 3.72                                    |
| Outstanding at March 31, 2008 | 42,608              | \$ 11.34                        | 3.49                                    |

Compensation cost resulting from stock options and stock appreciation rights granted under the 1985 Plan is based on the intrinsic value of the award, recognized over the award's vesting period, and remeasured at each reporting date through the date of settlement. The total compensation cost/(credit) recognized for the three months ended March 31, 2008 was \$(44,363).

The 2005 Equity Incentive Compensation Plan (2005 Plan), adopted at the 2005 Annual Meeting, permits the grant of stock options, restricted stock awards and other stock incentives to key employees and all non-employee directors. The 2005 Plan provides for the issuance of up to 872,639 shares of the Corporation's Common Stock, including both performance and nonperformance-based restricted stock. Performance-based restricted stock awards vest at the end of a specified three year period, with the ultimate number of shares earned contingent on achievement of certain performance targets. If performance targets are not achieved, all or a portion of the performance-based awards are forfeited and become available for future grants. Nonperformance-based restricted stock awards vest ratably over a three year period and nonperformance-based restricted stock units (granted to non-employee directors) vest over a one year period. It is the current intention that employee grants will be performance-based. The 2005 Plan provides for accelerated vesting in the event of death or retirement. Non-employee directors also may elect to defer a portion of their cash compensation, with such deferred amount to be paid by delivery of deferred stock units. Outstanding awards are granted at fair market value on grant date. The number of shares of Common Stock which remain available for future grants under the 2005 Plan at March 31, 2008 is 825,322 shares.

A summary of the status of the Corporation's awards granted under the 2005 Plan as of March 31, 2008, and changes during the three month period then ended is presented below:

| Awards   | Shares/Units | Weighted Average Grant-Date Fair Value |
|--|--------------|--|
| Balance at December 31, 2007   | 30,162       | \$ 32.99                               |
| Granted:   |              |  |
| Restricted stock   | 8,752        | 37.51                                  |
| Restricted stock units   | 4,000        | 36.85                                  |
| Deferred stock units   | 175          | 38.77                                  |
| Vested   | (3,200)      | 34.70                                  |
| Forfeited  |              |  |
| Balance at March 31, 2008 (includes 31,934 performance-based awards and 7,955 nonperformance-based awards) | 39,889       | \$ 34.26                               |

Compensation costs resulting from awards granted under the 2005 Plan are based on the fair value of the award on grant date (determined by the average of the high and low price on grant date) and recognized on a straight-line basis over the requisite service period. For those awards with performance conditions, compensation costs are based on

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

the most probable outcome and, if such goals are not met, compensation cost is not recognized and any previously recognized compensation cost is reversed. The total compensation costs for restricted stock granted to employees for the period ended March 31, 2008 were \$101,750. The total compensation costs for restricted stock units granted to non-employee directors for the period ended March 31, 2008 were \$42,544. As of March 31, 2008, there were total unrecognized compensation costs of \$743,325, a component of additional capital surplus, related to nonvested equity-based compensation arrangements granted under the 2005 Plan. Those costs are expected to be recognized over a weighted average period of 1.85 years. The total fair value of shares vested during the three month period ended March 31, 2008 was \$117,104.

**7. OFFICER AND DIRECTOR COMPENSATION**

The aggregate remuneration paid during the three months ended March 31, 2008 to officers and directors amounted to \$1,209,476, of which \$136,607 was paid as fees and compensation to directors who were not officers. These amounts represent the taxable income to the Corporation's officers and directors and therefore differ from the amounts reported in the accompanying Statement of Operations that are recorded and expensed in accordance with generally accepted accounting principles.

**8. PORTFOLIO SECURITIES LOANED**

The Corporation makes loans of securities to brokers, secured by cash deposits, U.S. Government securities, or bank letters of credit. The Corporation accounts for securities lending transactions as secured financing and receives compensation in the form of fees or retains a portion of interest on the investment of any cash received as collateral. The Corporation also continues to receive interest or dividends on the securities loaned. The loans are secured at all times by collateral of at least 102% of the fair value of the securities loaned plus accrued interest. Gain or loss in the fair value of securities loaned that may occur during the term of the loan will be for the account of the Corporation. At March 31, 2008, the Corporation had securities on loan of \$62,377,240 and held collateral of \$64,411,555, 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**

|  | Three Months Ended<br>(unaudited) |                   | Year Ended December 31 |               |               |               |               |
|--|-----------------------------------|-------------------|------------------------|---------------|---------------|---------------|---------------|
|  | March 31,<br>2008                 | March 31,<br>2007 | 2007                   | 2006          | 2005          | 2004          | 2003          |
| <b>Per Share Operating Performance</b>                                   |                                   |                   |                        |               |               |               |               |
| Net asset value, beginning of period                                     | \$42.99                           | \$36.61           | \$36.61                | \$35.24       | \$28.16       | \$24.06       | \$20.98       |
| Net investment income  | 0.09                              | 0.09              | 0.46                   | 0.47          | 0.53*         | 0.41          | 0.38          |
| Net realized gains and increase (decrease) in<br>unrealized appreciation | (1.79)                            | 1.75              | 10.37                  | 4.91          | 8.29          | 5.05          | 3.89          |
| Change in accumulated other comprehensive income<br>(note 5)             | 0.00                              | 0.00              | 0.00                   | (0.09)        |               |               |               |
| <b>Total from investment operations</b>                                  | <b>(1.70)</b>                     | <b>1.84</b>       | <b>10.83</b>           | <b>5.29</b>   | <b>8.82</b>   | <b>5.46</b>   | <b>4.27</b>   |
| Less distributions   |                                   |                   |                        |               |               |               |               |
| Dividends from net investment income                                     | (0.04)                            | (0.03)            | (0.49)                 | (0.47)        | (0.56)        | (0.44)        | (0.38)        |
| Distributions from net realized gains                                    | (0.09)                            | (0.10)            | (3.82)                 | (3.33)        | (1.22)        | (0.88)        | (0.81)        |
| <b>Total distributions</b>   | <b>(0.13)</b>                     | <b>(0.13)</b>     | <b>(4.31)</b>          | <b>(3.80)</b> | <b>(1.78)</b> | <b>(1.32)</b> | <b>(1.19)</b> |
| Capital share repurchases  | 0.02                              | 0.04              | 0.10                   | 0.15          | 0.10          | 0.01          | 0.02          |
| Reinvestment of distributions  |                                   |                   | (0.24)                 | (0.27)        | (0.06)        | (0.05)        | (0.02)        |
| Total capital share transactions   | 0.02                              | 0.04              | (0.14)                 | (0.12)        | 0.04          | (0.04)        | 0.00          |
| Net asset value, end of period   | \$41.18                           | \$38.36           | \$42.99                | \$36.61       | \$35.24       | \$28.16       | \$24.06       |
| Per share market price, end of period                                    | \$36.43                           | \$34.63           | \$38.66                | \$33.46       | \$32.34       | \$25.78       | \$23.74       |
| <b>Total Investment Return</b>   |                                   |                   |                        |               |               |               |               |
| Based on market price  | (5.4)%                            | 3.9%              | 28.9%                  | 15.3%         | 32.3%         | 14.4%         | 30.8%         |
| Based on net asset value   | (3.9)%                            | 5.2%              | 31.0%                  | 15.7%         | 32.0%         | 23.3%         | 21.2%         |
| <b>Ratios/Supplemental Data</b>  |                                   |                   |                        |               |               |               |               |
| Net assets, end of period (in 000 s)                                     | \$934,618                         | \$841,657         | \$978,920              | \$812,047     | \$761,914     | \$618,887     | \$522,941     |
| Ratio of expenses to average net assets                                  | 0.53%                             | 0.66%             | 0.54%                  | 0.60%         | 0.59%         | 0.56%         | 0.74%         |

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|  |        |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|--------|
| Ratio of net investment income to average net assets     | 0.83%  | 0.95%  | 1.12%  | 1.22%  | 1.61%  | 1.58%  | 1.75%  |
| Portfolio turnover                                       | 3.58%  | 2.40%  | 7.36%  | 9.95%  | 10.15% | 13.44% | 10.20% |
| Number of shares outstanding at end of period (in 000 s) | 22,698 | 21,942 | 22,768 | 22,181 | 21,621 | 21,980 | 21,737 |

\* In 2005 the Corporation received dividend income of \$3,032,857, or \$0.14 per share, as a result of Precision Drilling Corp.'s reorganization. Ratio presented on an annualized basis.



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**SCHEDULE OF INVESTMENTS**

March 31, 2008

(unaudited)

|  | Shares    | Value (A)     |
|--|-----------|---------------|
| <b>Stocks And Convertible Securities 99.3%</b> |           |               |
| <b>Energy 92.1%</b>                            |           |               |
| <b>Integrated 35.5%</b>                        |           |               |
| Chevron Corp.                                  | 715,000   | \$ 61,032,400 |
| ConocoPhillips                                 | 556,891   | 42,440,663    |
| Exxon Mobil Corp.                              | 1,245,000 | 105,302,100   |
| Hess Corp.                                     | 195,000   | 17,195,100    |
| Marathon Oil Co.                               | 240,000   | 10,944,000    |
| Murphy Oil Corp.                               | 216,500   | 17,783,310    |
| Royal Dutch Shell plc ADR                      | 265,000   | 18,279,700    |
| Suncor Energy                                  | 90,000    | 8,671,500     |
| Total S.A. ADR                                 | 390,000   | 28,863,900    |
| Valero Energy Corp.                            | 425,000   | 20,871,750    |
|  |           | 331,384,423   |
| <b>Exploration &amp; Production 18.4%</b>      |           |               |
| Apache Corp.                                   | 200,000   | 24,164,000    |
| Devon Energy Corp.                             | 330,000   | 34,428,900    |
| EOG Resources, Inc. (B)                        | 230,000   | 27,600,000    |
| Forest Oil Corp (C)                            | 37,000    | 1,811,520     |
| Noble Energy, Inc.                             | 340,000   | 24,752,000    |
| Occidental Petroleum Corp.                     | 400,000   | 29,268,000    |
| XTO Energy Inc.                                | 487,500   | 30,156,750    |
|  |           | 172,181,170   |
| <b>Services 24.3%</b>                          |           |               |
| Baker Hughes, Inc.                             | 205,000   | 14,042,500    |
| BJ Services Co.                                | 202,600   | 5,776,126     |
| ENSCO International, Inc.                      | 209,150   | 13,096,973    |
| Grant Prideco Inc. (C)                         | 308,000   | 15,159,760    |
| Hercules Offshore, Inc. (B) (C)                | 600,000   | 15,072,000    |
| Nabors Industries Ltd. (C)                     | 520,000   | 17,560,400    |
| Noble Corp.                                    | 600,000   | 29,802,000    |
| Schlumberger Ltd.                              | 560,000   | 48,720,000    |
| Transocean Inc. (C)                            | 237,953   | 32,171,246    |
| Weatherford International, Ltd. (C)            | 493,560   | 35,768,293    |
|  |           | 227,169,298   |
| <b>Utilities 13.9%</b>                         |           |               |
| AGL Resources Inc.                             | 170,000   | 5,834,400     |
| Duke Energy Corp.                              | 217,624   | 3,884,588     |
| Energen Corp.                                  | 400,000   | 24,920,000    |

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|                            |         |            |
|----------------------------|---------|------------|
| Equitable Resources Inc.   | 450,000 | 26,505,000 |
| MDU Resources Group, Inc.  | 375,000 | 9,206,250  |
| National Fuel Gas Co.      | 200,000 | 9,442,000  |
| New Jersey Resources Corp. | 300,000 | 9,315,000  |
| Northeast Utilities        | 200,000 | 4,908,000  |
| Questar Corp.              | 320,000 | 18,099,200 |
| Spectra Energy Corp.       | 108,812 | 2,475,473  |
| Williams Companies, Inc.   | 450,000 | 14,841,000 |

129,430,911

**Shares/  
Prin. Amt. Value (A)**

**Basic Industries 7.2%**

**Basic Materials & Other 7.2%**

|  |           |               |
|--|-----------|---------------|
| Air Products and Chemicals, Inc.       | 115,000   | \$ 10,580,000 |
| Aqua America, Inc. (B)                 | 281,000   | 5,277,180     |
| du Pont (E.I.) de Nemours and Co.      | 157,500   | 7,364,700     |
| General Electric Co.                   | 164,000   | 6,069,640     |
| International Coal Group, Inc. (B) (C) | 3,000,000 | 19,050,000    |
| Lubrizol Corp.                         | 135,000   | 7,493,850     |
| Massey Energy Co.                      | 96,879    | 3,536,084     |
| Rohm & Haas Co.                        | 150,000   | 8,112,000     |

67,483,454

**Total Stocks And Convertible Securities**

(Cost \$366,034,527) (D) 927,649,256

**Short-Term Investments 0.9%**

**U.S. Government Obligations 0.3%**

|  |              |           |
|--|--------------|-----------|
| U.S. Treasury Bills,<br>2.18%, due 5/15/08 | \$ 3,000,000 | 2,992,007 |
|--|--------------|-----------|

**Time Deposit 0.0%**

|                                  |  |         |
|----------------------------------|--|---------|
| Wachovia Bank, 1.70%, due 4/1/08 |  | 218,353 |
|----------------------------------|--|---------|

**Commercial Paper 0.6%**

|  |              |           |
|--|--------------|-----------|
| Chevron Funding Corp.,<br>2.05%, due 4/3/08          | \$ 1,000,000 | 999,810   |
| General Electric Capital Corp.,<br>2.28%, due 4/1/08 | \$ 2,000,000 | 2,000,000 |
| Toyota Motor Credit Corp.,<br>1.79%, due 4/3/08      | \$ 2,500,000 | 2,499,751 |

5,499,561

**Total Short-Term Investments**

(Cost \$8,709,921) 8,709,921

**Total Securities Lending Collateral 6.9%**

(Cost \$64,411,555)

|   |  |            |
|---|--|------------|
| Brown Brothers Investment<br>Trust, 3.02%, due 4/1/08 |  | 64,411,555 |
|---|--|------------|

**Total Investments 107.1%**

(Cost \$439,156,003) 1,000,770,732

|  |  |              |
|--|--|--------------|
| Cash, receivables, prepaid<br>expenses and other assets, less liabilities (7.1)% |  | (66,153,187) |
|--|--|--------------|

**Net Assets 100%**

\$ 934,617,545

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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) Some of the shares of this company are on loan. See note 8 to financial statements.
- (C) Presently non-dividend paying.
- (D) The aggregate market value of stocks held in escrow at March 31, 2008 covering open call option contracts written was \$6,055,800.

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**PORTFOLIO SUMMARY**

March 31, 2008

(unaudited)

**TEN LARGEST PORTFOLIO HOLDINGS**

|                                 | <i>Market Value</i> | <i>% of Net Assets</i> |
|---------------------------------|---------------------|------------------------|
| Exxon Mobil Corp.               | \$ 105,302,100      | 11.3%                  |
| Chevron Corp.                   | 61,032,400          | 6.5                    |
| Schlumberger Ltd.               | 48,720,000          | 5.2                    |
| ConocoPhillips                  | 42,440,663          | 4.5                    |
| Weatherford International, Ltd. | 35,768,293          | 3.8                    |
| Devon Energy Corp.              | 34,428,900          | 3.7                    |
| Transocean Inc.                 | 32,171,246          | 3.5                    |
| XTO Energy                      | 30,156,750          | 3.2                    |
| Noble Corp.                     | 29,802,000          | 3.2                    |
| Occidental Petroleum Corp.      | 29,268,000          | 3.1                    |
| Total                           | \$ 449,090,352      | 48.0%                  |

**SECTOR WEIGHTINGS**

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**SCHEDULE OF OUTSTANDING OPTION CONTRACTS**

March 31, 2008

(unaudited)

| Contracts<br>(100 shares<br>each) | Security                         | Strike Price | Contract<br>Expiration<br>Date | Appreciation/<br>(Depreciation) |
|-----------------------------------|----------------------------------|--------------|--------------------------------|---------------------------------|
| <b>COVERED CALLS</b>              |                                  |              |                                |                                 |
| 100                               | Air Products and Chemicals, Inc. | \$ 115       | Sep 08                         | \$(1,800)                       |
| 100                               | ENSCO International, Inc.        | 65           | Apr 08                         | (5,290)                         |
| 100                               | Equitable Resources Inc.         | 65           | Jun 08                         | 700                             |
| 100                               | Marathon Oil Co.                 | 55           | Apr 08                         | 19,780                          |
| 100                               | Marathon Oil Co.                 | 60           | Apr 08                         | 9,200                           |
| 100                               | Rohm & Haas Co.                  | 55           | Apr 08                         | (1,800)                         |
| 100                               | Rohm & Haas Co.                  | 60           | Apr 08                         | 12,199                          |
| 100                               | Suncor Energy                    | 125          | Jun 08                         | 3,700                           |
| 100                               | Suncor Energy                    | 135          | Sep 08                         | (800)                           |
| 900                               |                                  |              |                                | \$35,889                        |

**CHANGES IN PORTFOLIO SECURITIES**

During the Three Months Ended March 31, 2008

(unaudited)

|                         | Additions | Reductions | Shares<br>Held<br>March 31, 2008 |
|-------------------------|-----------|------------|----------------------------------|
| Hercules Offshore, Inc. | 57,680    |            | 600,000                          |

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|                                |                        |           |
|--------------------------------|------------------------|-----------|
| International Coal Group, Inc. | 1,355,924              | 3,000,000 |
| Massey Energy Co.              | 96,879                 | 96,879    |
| New Jersey Resources Corp.     | 100,000 <sup>(1)</sup> | 300,000   |
| Northeast Utilities            | 89,000                 | 200,000   |
| Transocean Inc.                | 100,000                | 237,953   |
| General Electric Co.           |                        | 164,000   |
| Rohm & Haas Co.                |                        | 45,000    |
|                                |                        | 150,000   |

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

**HISTORICAL FINANCIAL STATISTICS***(unaudited)*

| <b>Dec. 31</b> | <b>Value Of<br/>Net Assets</b> | <b>Shares<br/>Outstanding*</b> | <b>Net Asset<br/>Value Per<br/>Share*</b> | <b>Market<br/>Value<br/>Per Share*</b> | <b>Dividends<br/>From<br/>Investment<br/>Income<br/>Per<br/>Share*</b> | <b>Distributions<br/>From Net<br/>Realized<br/>Gains<br/>Per<br/>Share*</b> | <b>Total<br/>Dividends<br/>and<br/>Distributions<br/>Per Share*</b> | <b>Annual<br/>Rate of<br/>Distribution**</b> |
|----------------|--------------------------------|--------------------------------|---|--|--|---|---|--|
| 1998           | \$ 474,821,118                 | 20,762,063                     | \$ 22.87                                  | \$ 20.42                               | \$ .52   | \$ 1.01   | \$ 1.53   | 6.48%  |
| 1999           | 565,075,001                    | 21,471,270                     | 26.32                                     | 21.50                                  | .48  | 1.07  | 1.55  | 7.00   |
| 2000           | 688,172,867                    | 21,053,644                     | 32.69                                     | 27.31                                  | .39  | 1.35  | 1.74  | 6.99   |
| 2001           | 526,491,798                    | 21,147,563                     | 24.90                                     | 23.46                                  | .43  | 1.07  | 1.50  | 5.61   |
| 2002           | 451,275,463                    | 21,510,067                     | 20.98                                     | 19.18                                  | .43  | .68   | 1.11  | 5.11   |
| 2003           | 522,941,279                    | 21,736,777                     | 24.06                                     | 23.74                                  | .38  | .81   | 1.19  | 5.84   |
| 2004           | 618,887,401                    | 21,979,676                     | 28.16                                     | 25.78                                  | .44  | .88   | 1.32  | 5.40   |
| 2005           | 761,913,652                    | 21,621,072                     | 35.24                                     | 32.34                                  | .56  | 1.22  | 1.78  | 5.90   |
| 2006           | 812,047,239                    | 22,180,867                     | 36.61                                     | 33.46                                  | .47  | 3.33  | 3.80  | 11.26  |
| 2007           | 978,919,829                    | 22,768,250                     | 42.99                                     | 38.66                                  | .49  | 3.82  | 4.31  | 11.61  |
| March 31, 2008 | 934,617,545                    | 22,698,284                     | 41.18                                     | 36.43                                  | .17  | .09   | .26   |  |

\* Adjusted for 3-for-2 stock split effected in October 2000.

\*\* The Annual Rate of Distribution is the total dividends and capital gain distributions during the year divided by the average daily market price of the Corporation's Common Stock.  
Paid or declared.

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**Common Stock**

Listed on the New York Stock Exchange

**Petroleum & Resources Corporation**

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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.

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.



**ANNUAL MEETING OF STOCKHOLDERS**

The Annual Meeting of Stockholders was held on March 13, 2008. The following votes were cast for directors:

|                        | <b>votes for</b> | <b>votes withheld</b> |
|------------------------|------------------|-----------------------|
| Enrique R. Arzac:      | 19,535,647       | 360,862               |
| Phyllis O. Bonanno:    | 19,544,783       | 351,726               |
| Kenneth J. Dale:       | 19,534,638       | 361,871               |
| Daniel E. Emerson:     | 19,473,225       | 423,283               |
| Frederic A. Escherich: | 19,557,610       | 338,898               |
| Roger W. Gale:         | 19,541,779       | 354,729               |
| Thomas H. Lenagh:      | 19,449,738       | 446,770               |
| Kathleen T. McGahran:  | 19,540,694       | 355,864               |
| Douglas G. Ober:       | 19,529,791       | 366,718               |
| Craig R. Smith:        | 19,549,889       | 345,319               |

A proposal to approve and ratify the selection of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Corporation for 2008 was approved with 19,642,959 votes for, 98,680 votes against, and 154,867 shares abstaining.

**OTHER INFORMATION****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 stockholders, 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 (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, 2007 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, through its transfer agent, currently American Stock Transfer & Trust Company, 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.

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**STOCKHOLDER INFORMATION AND SERVICES**
**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<br>(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**

|  |             |
|--|-------------|
| Initial minimum investment (non-holders)       | \$500.00    |
| Minimum optional investment (existing holders) | \$50.00     |
| Electronic Funds Transfer<br>(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 Stockholders**

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

**The Corporation**

**Petroleum & Resources Corporation**

Lawrence L. Hooper, Jr.

Vice President, General Counsel and Secretary

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

(800) 638-2479

*Website:* [www.peteres.com](http://www.peteres.com)

*E-mail:* [contact@peteres.com](mailto:contact@peteres.com)

**The Transfer Agent**

**American Stock Transfer & Trust Company**

*Address Stockholder Inquiries to:*

Stockholder Relations Department

59 Maiden Lane

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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 10269-0560

**Website:** [www.amstock.com](http://www.amstock.com)

**E-mail:** [info@amstock.com](mailto:info@amstock.com)

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