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PETROLEUM & RESOURCES CORP

Form N-30D

October 15, 2002

LETTER TO STOCKHOLDERS

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We submit herewith the financial statements of the Corporation for the nine months ended September 30, 2002. In addition, there is a schedule of investments provided along with other financial information.

Net assets of the Corporation at September 30, 2002 were \$20.55 per share on 21,075,063 shares outstanding, compared with \$24.90 per share at December 31, 2001 on 21,147,563 shares outstanding. On March 1, 2002, a distribution of \$0.13 per share was paid consisting of \$0.08 from 2001 long-term capital gain, \$0.01 from 2001 short-term capital gain, \$0.03 from 2001 investment income and \$0.01 from 2002 investment income, all taxable in 2002. Investment income dividends of \$0.13 per share were paid on June 1, 2002 and September 1, 2002.

Net investment income for the nine months ended September 30, 2002 amounted to \$7,261,163, compared with \$8,212,484 for the same period in 2001. These earnings are equal to \$0.34 and \$0.40 per share, respectively, on the average number of shares outstanding during each period.

Net capital gain realized on investments for the nine months ended September 30, 2002 amounted to \$11,364,173, the equivalent of \$0.54 per share.

Current and potential shareholders can find information about the Corporation, including the daily net asset value (NAV) per share, the market price, and the discount/premium to the NAV, at its site on the Internet. The address for the site is [www.peteres.com](http://www.peteres.com). Also available at the website are a brief history of the Corporation, historical financial information, and more general industry material. Further information regarding shareholder services is located on page 12 of this report.

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

By order of the Board of Directors,

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

/s/ Richard F. Koloski  
Richard F. Koloski,  
President

October 18, 2002

STATEMENT OF ASSETS AND LIABILITIES

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September 30, 2002  
(unaudited)

Assets

Investments\* at value:

|  |               |
|--|---------------|
| Common stocks and convertible securities<br>(cost \$280,393,488) | \$378,970,009 |
| Short-term investments (cost \$52,626,275)                       | 52,612,730    |

Cash

|                               |         |
|-------------------------------|---------|
| Cash                          | 52,     |
| Securities lending collateral | 68,394, |

Receivables:

|                            |      |
|----------------------------|------|
| Investment securities sold | 616, |
| Dividends and interest     | 518, |

|                                   |        |
|-----------------------------------|--------|
| Prepaid expenses and other assets | 1,884, |
|-----------------------------------|--------|

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|              |          |
|--------------|----------|
| Total Assets | 503,049, |
|--------------|----------|

Liabilities

|   |      |
|---|------|
| Open written option contracts at value (proceeds \$192,399) | 248, |
|---|------|

|   |         |
|---|---------|
| Obligations to return securities lending collateral | 68,394, |
|---|---------|

|                  |        |
|------------------|--------|
| Accrued expenses | 1,262, |
|------------------|--------|

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|                   |         |
|-------------------|---------|
| Total Liabilities | 69,906, |
|-------------------|---------|

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|            |            |
|------------|------------|
| Net Assets | \$433,142, |
|------------|------------|

Net Assets

|   |            |
|---|------------|
| Common Stock at par value \$1.00 per share, authorized 50,000,000 shares;<br>issued and outstanding 21,075,063 shares | \$ 21,075, |
|---|------------|

|                            |          |
|----------------------------|----------|
| Additional capital surplus | 300,035, |
|----------------------------|----------|

|                                     |        |
|-------------------------------------|--------|
| Undistributed net investment income | 2,188, |
|-------------------------------------|--------|

|  |         |
|--|---------|
| Undistributed net realized gain on investments | 11,337, |
|--|---------|

|  |         |
|--|---------|
| Unrealized appreciation on investments | 98,506, |
|--|---------|

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|                                       |            |
|---------------------------------------|------------|
| Net Assets Applicable to Common Stock | \$433,142, |
|---------------------------------------|------------|

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|   |      |
|---|------|
| Net Asset Value Per Share of Common Stock | \$20 |
|---|------|

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

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

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STATEMENT OF OPERATIONS

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Nine Months Ended September 30, 2002  
(unaudited)

Investment Income

Income:

|           |              |
|-----------|--------------|
| Dividends | \$ 8,164,309 |
|-----------|--------------|

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|  |                 |
|--|-----------------|
| Interest and other income  | 729,932         |
| -----  |                 |
| Total income   | 8,894,241       |
| -----  |                 |
| Expenses:  |                 |
| Investment research  | 508,585         |
| Administration and operations                                      | 347,316         |
| Directors' fees  | 152,250         |
| Reports and stockholder communications                             | 166,391         |
| Transfer agent, registrar and custodian expenses                   | 137,324         |
| Auditing and accounting services                                   | 56,511          |
| Legal services   | 37,779          |
| Occupancy and other office expenses                                | 103,237         |
| Travel, telephone and postage                                      | 62,064          |
| Other  | 61,621          |
| -----  |                 |
| Total expenses   | 1,633,078       |
| -----  |                 |
| Net Investment Income  | 7,261,163       |
| -----  |                 |
| Realized Gain and Change in Unrealized Appreciation on Investments |                 |
| Net realized gain on security transactions                         | 11,364,173      |
| Change in unrealized appreciation on investments                   | (102,291,452)   |
| -----  |                 |
| Net Loss on Investments  | (90,927,279)    |
| -----  |                 |
| Change in Net Assets Resulting from Operations                     | \$ (83,666,116) |
| -----  |                 |

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

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STATEMENTS OF CHANGES IN NET ASSETS

|  | Nine Months Ended<br>September 30, 2002 | Year Ended<br>December 31, 2001 |
|--|---|---------------------------------|
|  | (unaudited)                             |                                 |
| From Operations:                                   |   |                                 |
| Net investment income                              | \$ 7,261,163                            | \$ 10,098,102                   |
| Net realized gain on investments                   | 11,364,173                              | 22,308,303                      |
| Change in unrealized appreciation on investments   | (102,291,452)                           | (164,346,055)                   |
| -----  |   |                                 |
| Change in net assets resulting from operations     | (83,666,116)                            | (131,939,650)                   |
| -----  |   |                                 |
| Dividends to Stockholders from:                    |   |                                 |
| Net investment income                              | (6,337,113)                             | (8,877,046)                     |
| Net realized gain from investment transactions     | (1,903,279)                             | (22,032,850)                    |
| -----  |   |                                 |
| Decrease in net assets from distributions          | (8,240,392)                             | (30,909,896)                    |
| -----  |   |                                 |
| From Capital Share Transactions:                   |   |                                 |
| Value of shares issued in payment of distributions | --                                      | 13,159,002                      |
| Cost of shares purchased (Note 4)                  | (1,442,545)                             | (11,990,525)                    |

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|  |                |                |
|--|----------------|----------------|
| Change in net assets from capital share transactions   | (1,442,545)    | 1,168,477      |
| Total Decrease in Net Assets   | (93,349,053)   | (161,681,069)  |
| Net Assets:  |                |                |
| Beginning of period  | 526,491,798    | 688,172,867    |
| End of period (including undistributed net investment income of \$2,188,068 and \$1,264,018, respectively) | \$ 433,142,745 | \$ 526,491,798 |

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's investment objectives as well as the nature and risk of its investment transactions are set forth in the Corporation's registration statement.

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

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

#### 2. FEDERAL INCOME TAXES

The Corporation's policy is to distribute all of its taxable income to its shareholders in compliance with the requirements of the Internal Revenue Code applicable to regulated investment companies. Therefore, no federal income tax provision is required. For federal income tax purposes, the identified cost of securities, including options, at September 30, 2002 was \$333,238,690, and net unrealized appreciation aggregated \$98,536,448, of which the related gross unrealized appreciation and depreciation were \$143,099,984 and \$44,563,536, respectively.

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

#### 3. INVESTMENT TRANSACTIONS

Purchases and sales of portfolio securities, other than options and short-term investments, during the nine months ended September 30, 2002 were \$35,584,450

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and \$31,192,124, respectively. Options may be written or purchased by the Corporation. The Corporation, as writer of an option, bears the market risk of an unfavorable change in the price of the security underlying the written option. The risk associated with purchasing options is limited to the premium originally paid. Option transactions comprised an insignificant portion of operations during the period ended September 30, 2002. All investment decisions are made by a committee, and no one person is primarily responsible for making recommendations to that committee.

#### 4. CAPITAL STOCK

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

On December 27, 2001, the Corporation issued 579,054 shares of its Common Stock at a price of \$22.725 per share (the average market price on December 10, 2001) to stockholders of record November 19, 2001 who elected to take stock in payment of the distribution from 2001 capital gain and investment income.

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

Transactions in Common Stock for 2002 and 2001 were as follows:

|  | Shares  |                                    | Amount  |                                    |
|--|---|------------------------------------|---|------------------------------------|
|  | Nine months<br>ended<br>September 30,<br>2002 | Year ended<br>December 31,<br>2001 | Nine months<br>ended<br>September 30,<br>2002 | Year ended<br>December 31,<br>2001 |
| Shares issued in<br>payment of<br>dividends  | --  | 579,054                            | \$ --   | \$ 13,159,002                      |
| Total increase   | --  | 579,054                            | \$ --   | \$ 13,159,002                      |
| Shares purchased<br>(at a weighted<br>average discount<br>from net asset<br>value of 9.0%<br>and 16.6%,<br>respectively) | (72,500)                                      | (429,150)                          | (1,442,545)                                   | (11,990,525)                       |
| Total decrease   | (72,500)                                      | (429,150)                          | \$(1,442,545)                                 | \$(11,990,525)                     |
| Net change   | (72,500)                                      | 149,904                            | \$(1,442,545)                                 | \$ 1,168,477                       |

The cost of the 115,332 shares and 42,832 shares of Common Stock held by the Corporation on September 30, 2002 and December 31, 2001, respectively, amounted to \$2,503,711 and \$1,061,166 on each respective date.

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The Corporation has an employee incentive stock option and stock appreciation rights plan which provides for the issuance of options and stock appreciation rights for the purchase of up to 895,522 shares of the Corporation's Common Stock at 100% of the fair market value at date of grant. Options are exercisable beginning not less than one year after the date of grant and extend and vest over ten years from the date of grant. Stock appreciation rights are exercisable beginning not less than two years after the date of grant and extend over the period during which the option is exercisable. The stock appreciation rights allow the holders to surrender their rights to exercise their options and receive cash or shares in an amount equal to the difference between the option price and the fair market value of the common stock at the date of surrender.

Under the plan, the exercise price of the options and related stock appreciation rights is reduced by the per share amount of capital gain paid by the Corporation during subsequent years. At the beginning of 2002, there were 148,997 options outstanding at a weighted average exercise price of \$17.1543 per share. During the nine months ended September 30, 2002, the Corporation granted options including stock appreciation rights for 23,769 shares of common stock with an exercise price of \$23.1350. During the period stock appreciation rights relating to 20,754 stock option shares were exercised at a weighted average market price of \$22.4884 per share and the stock options relating to these rights, which had a weighted average exercise price of \$12.2539, were cancelled. At September 30, 2002, there were outstanding exercisable options to purchase 27,808 common shares at \$9.7117-\$25.9338 per share (weighted average price of \$17.4661) and unexercisable options to purchase 124,204 common shares at \$9.7117-\$25.9338 per share (weighted average price of \$18.9227). The weighted average remaining contractual life of outstanding exercisable and unexercisable options was 5.1666 years and 6.2514 years, respectively. The total compensation expense for stock options and stock appreciation rights recognized for the nine months ended September 30, 2002 was \$(207,854). At September 30, 2002, there were 274,929 shares available for future option grants.

### 5. RETIREMENT PLANS

The Corporation provides retirement benefits for its employees under a non-contributory qualified defined benefit pension plan. The benefits are based on years of service and compensation during the last five years of employment. The Corporation's current funding policy is to contribute annually to the plan only those amounts that can be deducted for federal income tax purposes. As of September 30, 2002, the plan assets, consisting primarily of investments in individual stocks, bonds and mutual funds were \$4,405,413. In determining the actuarial present value of the projected benefit obligation, the interest rate used for the weighted average discount rate was 7.25%, the expected rate of annual salary increases was 7.0%, and the long-term expected rate of return on plan assets was 8.0%. The projected benefit obligation as of September 30, 2002 was \$3,620,318. Prepaid pension cost included in other assets at September 30, 2002 was \$1,578,006.

In addition, the Corporation has a nonqualified benefit plan which provides employees with defined retirement benefits to supplement the qualified plan. The Corporation does not provide postretirement medical benefits.

### 6. EXPENSES

The cumulative amount of accrued expenses at September 30, 2002 for employees and former employees of the Corporation was \$1,019,980. Aggregate remuneration paid or accrued during the nine months ended September 30, 2002 to officers and directors amounted to \$418,637, which includes a credit of \$207,854 for stock

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options and stock appreciation rights.

### 7. PORTFOLIO SECURITIES LOANED

The Corporation makes loans of securities to brokers, secured by cash deposits, U.S. Government securities, or bank letters of credit. The Corporation accounts for securities lending transactions as secured financing and receives compensation in the form of fees or retains a portion of interest on the investment of any cash received as collateral. The Corporation also continues to receive interest or dividends on the securities loaned. The loans are secured by collateral of at least 102%, at all times, 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, 2002, the Corporation had outstanding loans of \$65,558,569 and held collateral of \$68,394,850.

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### FINANCIAL HIGHLIGHTS

|   | -----<br>Nine Months Ended<br>----- |                   | -----<br>Year Ended December 3<br>----- |         |         |      |
|---|-------------------------------------|-------------------|---|---------|---------|------|
|   | (unaudited)                         |                   | 2001                                    | 2000    | 1999    | 199  |
|   | Sept. 30,<br>2002                   | Sept. 30,<br>2001 |   |         |         |      |
| -----   |                                     |                   |   |         |         |      |
| Per Share Operating Performance*  |                                     |                   |   |         |         |      |
| Net asset value, beginning of period  | \$24.90                             | \$32.69           | \$32.69                                 | \$26.32 | \$22.87 | \$27 |
| Net investment income   | 0.34                                | 0.40              | 0.49                                    | 0.37    | 0.48    | 0    |
| Net realized gains and change in unrealized appreciation (depreciation) and other changes | (4.30)                              | (7.93)            | (6.84)                                  | 7.46    | 4.51    | (3.  |
| Total from investment operations  | (3.96)                              | (7.53)            | (6.35)                                  | 7.83    | 4.99    | (3.  |
| Capital share repurchases   | --                                  | 0.06              | 0.06                                    | 0.28    | 0.01    |      |
| -----   |                                     |                   |   |         |         |      |
| Less distributions  |                                     |                   |   |         |         |      |
| Dividends from net investment income  | (0.30)                              | (0.31)            | (0.43)                                  | (0.39)  | (0.48)  | (0.  |
| Distributions from net realized gains   | (0.09)                              | (0.08)            | (1.07)                                  | (1.35)  | (1.07)  | (1.  |
| Total distributions   | (0.39)                              | (0.39)            | (1.50)                                  | (1.74)  | (1.55)  | (1.  |
| Net asset value, end of period  | \$20.55                             | \$24.83           | \$24.90                                 | \$32.69 | \$26.32 | \$22 |
| -----   |                                     |                   |   |         |         |      |
| Per share market price, end of period   | \$19.05                             | \$22.66           | \$23.46                                 | \$27.31 | \$21.50 | \$20 |
| Total Investment Return   |                                     |                   |   |         |         |      |
| Based on market price   | (17.4)%                             | (15.9)%           | (8.7)%                                  | 36.1%   | 13.3%   | (10. |
| Based on net asset value  | (16.1)%                             | (23.0)%           | (19.0)%                                 | 33.1%   | 23.8%   | (11. |
| Ratios/Supplemental Data  |                                     |                   |   |         |         |      |

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|   |           |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| Net assets, end of period (in 000's)                      | \$433,143 | \$511,601 | \$526,492 | \$688,173 | \$565,075 | \$474,000 |
| Ratio of expenses to average net assets                   | 0.43%+    | 0.27%+    | 0.35%     | 0.59%     | 0.43%     | 0.43%     |
| Ratio of net investment income to average net assets      | 1.91%+    | 1.74%+    | 1.67%     | 1.24%     | 1.86%     | 2.00%     |
| Portfolio turnover  | 9.26%+    | 7.00%+    | 6.74%     | 7.68%     | 11.89%    | 12.00%    |
| Number of shares outstanding at end of period (in 000's)* | 21,075    | 20,601    | 21,148    | 21,054    | 21,471    | 20,000    |

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

+Ratios presented on an annualized basis.

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### SCHEDULE OF INVESTMENTS

September 30, 2002  
 (unaudited)

|  | Shares    | Value (A)     |
|--|-----------|---------------|
|  |           |               |
| Stocks And Convertible Securities -- 87.5% |           |               |
| Energy --76.6%                             |           |               |
| Internationals --27.1%                     |           |               |
| BP plc ADR                                 | 482,000   | \$ 19,231,800 |
| ChevronTexaco Corp.                        | 300,000   | 20,775,000    |
| Exxon Mobil Corp.                          | 1,160,000 | 37,004,000    |
| Royal Dutch Petroleum Co.                  | 670,000   | 26,913,900    |
| "Shell" Transport and Trading Co., plc ADR | 150,000   | 5,358,000     |
| TotalFinaElf ADR (B)                       | 125,000   | 8,231,250     |
|  |           | 117,513,950   |
| Domestics --7.9%                           |           |               |
| Amerada Hess Corp.                         | 80,000    | 5,430,400     |
| ConocoPhillips                             | 140,310   | 6,487,935     |
| Kerr McGee Corp.                           | 177,153   | 7,695,526     |
| Murphy Oil Corp. (B)                       | 80,000    | 6,565,600     |
| Unocal Capital Trust \$3.125 Conv. Pfd.    | 72,540    | 3,500,055     |
| Unocal Corp. (B)                           | 150,000   | 4,708,500     |
|  |           | 34,388,016    |
| Producers -- 14.0%                         |           |               |
| Anadarko Petroleum Corp. (B)               | 250,000   | 11,135,000    |
| Apache Corp. (B)                           | 154,000   | 9,155,300     |
| Devon Energy Corp. (B)                     | 80,000    | 3,860,000     |
| EOG Resources, Inc.                        | 200,000   | 7,192,000     |
| Noble Energy                               | 125,000   | 4,246,250     |
| Occidental Petroleum Corp.                 | 175,000   | 4,966,500     |
| Ocean Energy, Inc.                         | 550,000   | 10,972,500    |
| Pioneer Natural Resources Co.              |           |               |



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|                            |         |            |
|----------------------------|---------|------------|
| (C)                        | 235,000 | 5,698,750  |
| Stone Energy Corp. (B) (C) | 104,300 | 3,389,750  |
|                            |         | -----      |
|                            |         | 60,616,050 |
|                            |         | -----      |

|  |         |            |
|--|---------|------------|
| Distributors -- 15.7%                              |         |            |
| Atmos Energy Corp. (B)                             | 139,500 | 2,999,250  |
| Duke Energy Corp. 8.25% Conv.<br>Pfd. due 2004 (B) | 160,000 | 2,616,000  |
| Duke Energy Corp. (B)                              | 115,000 | 2,248,250  |
| El Paso Corp. (B)                                  | 300,000 | 2,481,000  |
| Energen Corp.                                      | 250,000 | 6,327,500  |
| Equitable Resources Inc.                           | 361,000 | 12,472,550 |
| Keyspan Corp. (B)                                  | 220,000 | 7,370,000  |
| Kinder Morgan, Inc. (B)                            | 162,500 | 5,760,625  |
| National Fuel Gas Co. (B)                          | 200,000 | 3,974,000  |

|   | Shares  | Value (A)    |
|---|---------|--------------|
|   | -----   | -----        |
| New Jersey Resources Corp.                      | 277,500 | \$ 9,129,750 |
| Northwestern Corp. (B)                          | 200,000 | 1,952,000    |
| Questar Corp.                                   | 268,000 | 6,121,120    |
| TECO Energy, Inc. (B)                           | 200,000 | 3,176,000    |
| Williams Companies 9.0%<br>FELINE PACS due 2005 | 120,000 | 864,000      |
| Williams Companies, Inc.                        | 200,000 | 452,000      |
|   |         | -----        |
|   |         | 67,944,045   |
|   |         | -----        |

|  |         |            |
|--|---------|------------|
| Services --11.9%                           |         |            |
| Baker Hughes, Inc.                         | 90,000  | 2,612,700  |
| BJ Services Co. (B) (C)                    | 400,000 | 10,400,000 |
| Core Laboratories N.V. (C)                 | 209,400 | 1,962,078  |
| GlobalSantaFe Corp. (B)                    | 200,000 | 4,470,000  |
| Grant Prideco Inc. (C)                     | 308,000 | 2,630,320  |
| Nabors Industries, Ltd. (B) (C)            | 200,000 | 6,550,000  |
| Noble Corp. (C)                            | 135,000 | 4,185,000  |
| Schlumberger Ltd.                          | 190,000 | 7,307,400  |
| Transocean Inc.                            | 200,000 | 4,160,000  |
| Weatherford International,<br>Ltd. (B) (C) | 190,000 | 7,056,600  |
|  |         | -----      |
|  |         | 51,334,098 |
|  |         | -----      |

|                                |         |            |
|--------------------------------|---------|------------|
| Basic Industries --10.9%       |         |            |
| Basic Materials & Other --7.6% |         |            |
| Albemarle Corp.                | 160,000 | 4,046,400  |
| Arch Coal Inc. (B)             | 190,000 | 3,144,500  |
| Engelhard Corp.                | 200,000 | 4,766,000  |
| General Electric Co.           | 350,000 | 8,627,500  |
| Philadelphia Suburban Corp.    | 305,000 | 6,191,500  |
| Rohm & Haas Co.                | 200,000 | 6,200,000  |
|                                |         | -----      |
|                                |         | 32,975,900 |
|                                |         | -----      |

|   |        |           |
|---|--------|-----------|
| Paper and Forest Products --3.3%          |        |           |
| Boise Cascade Corp. 7.5% ACES<br>due 2004 | 51,000 | 2,006,850 |

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|   |         |             |
|---|---------|-------------|
| Boise Cascade Corp.   | 205,000 | 4,674,000   |
| Meadwestvaco Corp. (B)  | 150,000 | 2,881,500   |
| Temple-Inland Inc. (B)  | 120,000 | 4,635,600   |
|   |         | -----       |
|   |         | 14,197,950  |
|   |         | -----       |
| Total Stocks And Convertible Securities<br>(Cost \$280,393,488) (D) |         | 378,970,009 |
|   |         | -----       |

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SCHEDULE OF INVESTMENTS (continued)

September 30, 2002  
(unaudited)

|  | Prin. Amt.              | Value (A)    |
|--|-------------------------|--------------|
|  | -----                   | -----        |
| Short-Term Investments -- 12.1%  |                         |              |
| U.S. Government Obligations -- 2.3%                                    |                         |              |
| U.S. Treasury Bills, 1.55-1.61%,<br>due 11/14/02-11/21/02              | \$10,200,000            | \$10,178,332 |
|  |                         | -----        |
| Certificates of Deposit -- 2.3%  |                         |              |
| Mercantile-Safe Deposit<br>Trust Co., 1.95%,<br>due 10/15/02           | 10,000,000              | 10,000,000   |
|  |                         | -----        |
| Commercial Paper -- 7.5%   |                         |              |
| AIG Funding, Inc., 1.74%,<br>due 10/22/02                              | 5,000,000               | 4,994,925    |
| ChevronTexaco Corp., 1.72%,<br>due 10/24/02                            | 5,000,000               | 4,994,506    |
| Coca-Cola Enterprises, Inc.,<br>1.71%, due 10/17/02-10/24/02           | 3,820,000               | 3,816,609    |
| GMAC MINT,<br>1.77%, due 11/7/02                                       | 5,000,000               | 4,990,904    |
| General Electric Capital Corp.,<br>1.74-1.75%,<br>due 10/3/02-11/12/02 | 5,000,000               | 4,995,931    |
|  |                         |              |
|  | Prin. Amt.<br>or Shares | Value (A)    |
|  | -----                   | -----        |
| Toyota Motor Credit Corp.,<br>1.72%, due 11/5/02                       | \$4,850,000             | \$ 4,841,890 |

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|   |             |               |
|---|-------------|---------------|
| Wells Fargo Financial, Inc.,<br>1.76%, due 10/8/02  | \$3,775,000 | 3,773,708     |
|   |             | -----         |
|   |             | 32,408,473    |
|   |             | -----         |
| Purchased Options -- 0.0%<br>TECO Energy, Inc., Put,<br>November 2002,<br>Strike Price \$15 | 30,500      | 25,925        |
|   |             | -----         |
| Total Short-Term Investments<br>(Cost \$52,626,275)   |             | 52,612,730    |
|   |             | -----         |
| Total Investments -- 99.6%<br>(Cost \$333,019,763)  |             | 431,582,739   |
| Cash, receivables and other<br>assets, less liabilities -- 0.4%                             |             | 1,560,006     |
|   |             | -----         |
| Net Assets--100.0%  |             | \$433,142,745 |
|   |             | =====         |

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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 or all of these securities are on loan. See Note 7 to Financial Statements.
- (C) Presently non-dividend paying.
- (D) The aggregate market value of stocks held in escrow at September 30, 2002 covering open call option contracts written was \$1,495,600. In addition, the aggregate market value of securities segregated by the custodian required to collateralize open put option contracts written was \$2,950,000.

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This report, including the financial statements herein, is transmitted to the stockholders of Petroleum & Resources Corporation for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Corporation or of any securities mentioned in this report. The rates of return will vary and the market value of an investment will fluctuate. Shares, if sold, may be worth more or less than their original cost. Past performance is not indicative of future investment results.

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### CHANGES IN PORTFOLIO SECURITIES

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During the Three Months Ended September 30, 2002  
(unaudited)

Shares

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Held  
September 30,

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|                             | Additions    | Reductions   | 2002      |
|-----------------------------|--------------|--------------|-----------|
|                             | -----        | -----        | -----     |
| Albemarle Corp.....         | 145,000      |              | 160,000   |
| Arch Coal Inc.....          | 15,000       |              | 190,000   |
| Baker Hughes, Inc.....      | 90,000       |              | 90,000    |
| ConocoPhillips.....         | 140,310/(1)/ |              | 140,310   |
| Duke Energy Corp.....       | 15,000       |              | 115,000   |
| Murphy Oil Corp.....        | 16,500       | 20,000       | 80,000    |
| Noble Corp.....             | 85,000       |              | 135,000   |
| Philadelphia Suburban Corp. | 5,000        |              | 305,000   |
| Rohm & Haas Co.....         | 20,000       |              | 200,000   |
| Conoco Inc.....             |              | 300,000/(1)/ | --        |
| Exxon Mobil Corp.....       |              | 40,000       | 1,160,000 |
| Meadwestvaco Corp.....      |              | 60,000       | 150,000   |
| Royal Dutch Petroleum Co... |              | 50,000       | 670,000   |
| Schlumberger Ltd.....       |              | 39,400       | 190,000   |

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 /(1) /Received .4677 share of ConocoPhillips for each share of Conoco Inc. held.  
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FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities and Exchange Act of 1934. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect the Corporation's actual results are the performance of the portfolio of stocks held by the Corporation, the conditions in the U.S. and international financial, petroleum and other markets, the price at which shares of the Corporation will trade in the public markets, and other factors discussed in the Corporation's periodic filings with the Securities and Exchange Commission.

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HISTORICAL FINANCIAL STATISTICS

| December 31 | Value of<br>Net Assets | Shares<br>Outstanding* | Net<br>Asset<br>Value per<br>Share* | Dividends<br>from<br>Net Investment<br>Income<br>per Share* | Distributions<br>from<br>Net Realized<br>Gains<br>per Share* |
|-------------|------------------------|------------------------|-------------------------------------|---|--|
| -----       | -----                  | -----                  | -----                               | -----   | -----  |
| 1992.....   | \$320,241,282          | 17,369,255             | \$18.44                             | \$.51   | \$ .82   |
| 1993.....   | 355,836,592            | 18,010,007             | 19.76                               | .55   | .87  |
| 1994.....   | 332,279,398            | 18,570,450             | 17.89                               | .61   | .79  |
| 1995.....   | 401,404,971            | 19,109,075             | 21.01                               | .58   | .81  |
| 1996.....   | 484,588,990            | 19,598,729             | 24.73                               | .55   | .88  |
| 1997.....   | 566,452,549            | 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   |

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September 30, 2002 (unaudited) 433,142,745 21,075,063 20.55 .30 .09

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

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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  
Website: www.peteres.com  
E-mail: contact@peteres.com  
Telephone: (410) 752-5900 or (800) 638-2479  
Counsel: Chadbourne & Parke L.L.P.  
Independent Accountants: PricewaterhouseCoopers LLP  
Transfer Agent, Registrar & Custodian of Securities  
The Bank of New York  
101 Barclay Street  
New York, NY 10286  
The Bank's Shareholder Relations Department: (866) 723-8330  
E-mail: Shareowner-svcs@bankofny.com

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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.

#### BuyDIRECT/SM/\*

BuyDIRECT is a direct purchase and sale plan, as well as a dividend reinvestment plan, sponsored and administered by our transfer agent, The Bank of New York. 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 \$7.50

A one-time fee for new accounts who are not currently registered holders.

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Optional Cash Investments  
Service Fee \$2.50 per investment  
Brokerage Commission \$0.05 per share  
Reinvestment of Dividends\*\*  
Service Fee 10% 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 Included  
Book to Book Transfers Included

To transfer shares to another participant or to a new participant

Fees are subject to change at any time.

Minimum and Maximum Cash Investments

Initial minimum investment (non-holders) \$500.00  
Minimum optional investment  
(existing holders) \$50.00  
Electronic Funds Transfer (monthly  
minimum) \$50.00  
Maximum per transaction \$25,000.00  
Maximum per year NONE

A brochure which further details the benefits and features of BuyDIRECT as well as an enrollment form may be obtained by contacting The Bank of New York.

For Non-Registered Shareholders

For shareholders whose stock is held by a broker in "street" name, The Bank of New York's Automatic Dividend Reinvestment 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 the Plan or contact The Bank of New York about the BuyDIRECT Plan.

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

The Transfer Agent  
The Bank of New York  
Shareholder Relations  
Dept.-8W  
P.O. Box 11258  
Church Street Station  
New York, NY 10286  
(866) 723-8330  
Website: <http://stock.bankofny.com>  
E-mail:  
Shareowner-svcs@  
bankofny.com

\*BuyDIRECT is a service mark of The Bank of New York.

\*\*The year-end dividend and capital gain distribution may be made in newly

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issued shares of common stock. There would be no fees or commissions in connection with this dividend and capital gain distribution when made in newly issued shares.

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### PETROLEUM & RESOURCES CORPORATION

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#### Board of Directors

|                           |                         |
|---------------------------|-------------------------|
| Enrique R. Arzac/2,4/     | Douglas G. Ober/1/      |
| Daniel E. Emerson/1,3/    | Landon Peters/1,3/      |
| Edward J. Kelly, III/1,4/ | John J. Roberts/2,4/    |
| Thomas H. Lenagh/3,4/     | Susan C. Schwab/1,3/    |
| W.D. MacCallan/2,4/       | Robert J.M. Wilson/1,3/ |
| W. Perry Neff/1,2/        |                         |

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

#### Officers

|                         |  |
|-------------------------|--|
| Douglas G. Ober         | Chairman and<br>Chief Executive Officer          |
| Richard F. Koloski      | President  |
| Joseph M. Truta         | Executive Vice President                         |
| Nancy J.F. Prue         | Vice President--Research                         |
| Lawrence L. Hooper, Jr. | Vice President, Secretary<br>and General Counsel |
| Maureen A. Jones        | Vice President and<br>Chief Financial Officer    |
| Christine M. Sloan      | Assistant Treasurer                              |
| Geraldine H. Pare       | Assistant Secretary                              |

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Stock Data  
-----

|                           |         |
|---------------------------|---------|
| Price (9/30/02)           | \$19.05 |
| Net Asset Value (9/30/02) | \$20.55 |
| Discount:                 | 7.3%    |

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 2002  
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|                         |        |
|-------------------------|--------|
| From Investment Income  | \$0.30 |
| From Net Realized Gains | 0.09   |
|                         | -----  |
| Total                   | \$0.39 |
|                         | =====  |

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2002 Dividend Payment Dates  
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March 1, 2002  
June 1, 2002  
September 1, 2002  
December 27, 2002\*

\*Anticipated

[GRAPHIC]

[LOGO] PETROLEUM & RESOURCES CORPORATION (R)  
THIRD QUARTER REPORT

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September 30, 2002