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PETROLEUM & RESOURCES CORP  
Form N-CSR  
February 13, 2006

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES

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

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

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

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

Date of fiscal year end: December 31, 2005

Date of reporting period: December 31, 2005

Item 1: Reports to Stockholders

2005 AT A GLANCE  
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THE CORPORATION

.. a closed-end equity investment company emphasizing natural resources stocks  
.. objectives: preservation of capital  
reasonable income  
opportunity for capital gain  
.. internally-managed  
.. low expense ratio  
.. low turnover  
STOCK DATA (12/31/05)

NYSE Symbol..... PEO  
Market Price ..... \$32.34  
52-Week Range \$25.55 - \$35.40  
Discount ..... 8.2%  
Shares Outstanding 21,621,072

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## SUMMARY FINANCIAL INFORMATION

|   | Year Ended December 31 |             |
|---|------------------------|-------------|
|   | 2005                   | 2004        |
| Net asset value per share               | \$ 35.24               | \$ 28.16    |
| Total net assets                        | 761,913,652            | 618,887,401 |
| Unrealized appreciation                 | 428,811,345            | 275,422,891 |
| Net investment income                   | 11,391,783             | 8,924,453   |
| Total realized gain                     | 26,239,852             | 18,979,327  |
| Total return (based on market value)    | 32.3%                  | 14.4%       |
| Total return (based on net asset value) | 32.0%                  | 23.3%       |
| Expense ratio                           | 0.59%                  | 0.56%       |

## 2005 DIVIDENDS AND DISTRIBUTIONS

|                   | Amount      |                         |
|-------------------|-------------|-------------------------|
| Paid              | (per share) | Type                    |
| March 1, 2005     | \$0.06      | Long-term capital gain  |
| March 1, 2005     | 0.02        | Short-term capital gain |
| March 1, 2005     | 0.05        | Investment income       |
| June 1, 2005      | 0.13        | Investment income       |
| September 1, 2005 | 0.13        | Investment income       |
| December 27, 2005 | 1.00        | Long-term capital gain  |
| December 27, 2005 | 0.14        | Short-term capital gain |
| December 27, 2005 | 0.25        | Investment income       |
| \$1.78            |             |                         |

## 2006 ANNUAL MEETING OF STOCKHOLDERS

Location: Gaylord Palms Hotel Resort & Convention Center, Orlando, Florida  
 Date: March 28, 2006  
 Time: 11:00 a.m.

## PORTFOLIO REVIEW

### TEN LARGEST PORTFOLIO HOLDINGS (12/31/05)

|                   | Market Value % of Net Assets |     |
|-------------------|------------------------------|-----|
| Exxon Mobil Corp. | \$ 64,033,800                | 8.4 |
| BP plc ADR        | 38,532,000                   | 5.0 |

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|                           |               |       |
|---------------------------|---------------|-------|
| Chevron Corp.             | 36,048,950    | 4.7   |
| ConocoPhillips            | 29,671,800    | 3.9   |
| Schlumberger Ltd.         | 27,202,000    | 3.6   |
| BJ Services Co.           | 27,135,800    | 3.6   |
| EOG Resources, Inc.       | 25,312,650    | 3.3   |
| Devon Energy Corp.        | 22,201,700    | 2.9   |
| Burlington Resources Inc. | 21,274,160    | 2.8   |
| Nabors Industries Ltd.    | 19,695,000    | 2.6   |
|                           | -----         | ----  |
| Total                     | \$311,107,860 | 40.8% |
|                           | -----         | ----  |

SECTOR WEIGHTINGS (12/31/05)

[CHART]

|                         |       |
|-------------------------|-------|
| Internationals          | 22.4% |
| Domestics               | 11.3% |
| Producers               | 20.3% |
| Distributors            | 12.3% |
| Services                | 20.2% |
| Basic Materials & Other | 10.7% |
| Paper & Forest Products | 0.6%  |
| Cash & Equivalent       | 2.2%  |

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PETROLEUM & RESOURCES CORPORATION

| Calendar<br>Years | Market<br>value<br>of<br>original<br>shares | Cumulative<br>market value<br>of capital<br>gains<br>distributions<br>taken in<br>shares | Cumulative<br>market value<br>of income<br>dividends<br>taken in<br>shares | Total<br>market<br>value | Total net<br>asset<br>value |
|-------------------|---|--|--|--------------------------|-----------------------------|
| 1991              | \$10,311                                    | \$ 520   | \$ 346   | \$11,177                 | \$12,070                    |
| 1992              | 10,014                                      | 1,052  | 648  | 11,714                   | 12,834                      |
| 1993              | 10,906                                      | 1,757  | 1,066  | 13,729                   | 14,800                      |
| 1994              | 10,014                                      | 2,219  | 1,399  | 13,632                   | 14,494                      |
| 1995              | 11,204                                      | 3,162  | 2,035  | 16,401                   | 18,297                      |
| 1996              | 13,786                                      | 4,708  | 3,031  | 21,525                   | 22,971                      |
| 1997              | 14,476                                      | 5,888  | 3,650  | 24,014                   | 27,281                      |
| 1998              | 12,150                                      | 5,950  | 3,546  | 21,646                   | 24,239                      |
| 1999              | 12,793                                      | 7,488  | 4,229  | 24,510                   | 30,005                      |
| 2000              | 16,249                                      | 11,248   | 5,848  | 33,345                   | 39,914                      |
| 2001              | 13,959                                      | 11,011   | 5,481  | 30,451                   | 32,320                      |
| 2002              | 11,412                                      | 9,881  | 4,983  | 26,276                   | 28,743                      |
| 2003              | 14,125                                      | 13,468   | 6,759  | 34,352                   | 34,815                      |
| 2004              | 15,339                                      | 15,919   | 8,031  | 39,289                   | 42,916                      |
| 2005              | 19,242                                      | 21,786   | 10,942   | 51,970                   | 56,631                      |

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### ILLUSTRATION OF AN ASSUMED 15 YEAR INVESTMENT OF \$10,000 (unaudited)

Investment income dividends and capital gains distributions are taken in additional shares. This chart covers the years 1991-2005. Fees for the reinvestment of interim dividends are assumed as 2% of the amount reinvested (maximum of \$2.50) and commissions of \$0.05 per share. There is no charge for reinvestment of year-end distributions. No adjustment has been made for any income taxes payable by stockholders on income dividends or on capital gains distributions or the sale of any shares. These results should not be considered representative of the dividend income or capital gain or loss which may be realized in the future.

[CHART]

|    | Market Value<br>of Original<br>Shares | Cumulative<br>Market Value of<br>Shares from Capital<br>gains distributions | Cumulative<br>Market Value of<br>Shares from<br>income dividends | Total<br>market<br>value | Total<br>net asset<br>value |
|----|---------------------------------------|---|--|--------------------------|-----------------------------|
|    | -----                                 | -----   | -----  | -----                    | -----                       |
| 91 | \$10,311                              | \$ 520  | \$ 346   | \$11,177                 | \$12,070                    |
| 92 | \$10,014                              | \$ 1,052  | \$ 648   | \$11,714                 | \$12,834                    |
| 93 | \$10,906                              | \$ 1,757  | \$ 1,066   | \$13,729                 | \$14,800                    |
| 94 | \$10,014                              | \$ 2,219  | \$ 1,399   | \$13,632                 | \$14,494                    |
| 95 | \$11,204                              | \$ 3,162  | \$ 2,035   | \$16,401                 | \$18,297                    |
| 96 | \$13,786                              | \$ 4,708  | \$ 3,031   | \$21,525                 | \$22,971                    |
| 97 | \$14,476                              | \$ 5,888  | \$ 3,650   | \$24,014                 | \$27,281                    |
| 98 | \$12,150                              | \$ 5,950  | \$ 3,546   | \$21,646                 | \$24,239                    |
| 99 | \$12,793                              | \$ 7,488  | \$ 4,229   | \$24,510                 | \$30,005                    |
| 00 | \$16,249                              | \$11,248  | \$ 5,848   | \$33,345                 | \$39,914                    |
| 01 | \$13,959                              | \$11,011  | \$ 5,481   | \$30,451                 | \$32,320                    |
| 02 | \$11,412                              | \$ 9,881  | \$ 4,983   | \$26,276                 | \$28,743                    |
| 03 | \$14,125                              | \$13,468  | \$ 6,759   | \$34,352                 | \$34,815                    |
| 04 | \$15,339                              | \$15,919  | \$ 8,031   | \$39,289                 | \$42,916                    |
| 05 | \$19,242                              | \$21,786  | \$10,942   | \$51,970                 | \$56,631                    |

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#### LETTER TO SHAREHOLDERS

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Over the last several years, the energy sector has posted strong earnings and share price performance. 2005 marked the fourth consecutive year of energy stocks outperforming the Dow Jones Industrial Average and the S&P 500 Index. In this annual report we detail our performance for 2005 and share our current outlook for the energy markets.

#### THE YEAR IN REVIEW

The early decline in oil and natural gas prices attributed to warm weather and high inventories was short lived. Daily news headlines quickly focused on underinvestment by the industry, supply scarcity and limited new resource potential. While demand growth, especially in China and the United States, drove energy prices in 2004, supply concerns and worldwide capacity drove prices in 2005. In fact, U.S. crude oil and natural gas prices increased an average of 36% and 45%, respectively, while U.S. energy demand was flat. The driver of the higher prices was concern about limited spare capacity,

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especially within OPEC. The late summer hurricane season greatly compounded the concerns about resource availability. Besides having a devastating impact on many lives, Hurricanes Katrina and Rita inflicted substantial damage to both upstream and downstream U.S. infrastructure, further propelling energy prices higher. Crude prices spiked to over \$69 per barrel and natural gas exceeded \$15 per thousand cubic feet (mcf). Gasoline prices increased with strong demand and topped \$3.00 per gallon temporarily as a result of the hurricanes. As Gulf of Mexico supplies gradually returned to the market, commodity prices retreated to pre-hurricane levels. At year end, crude oil closed at \$61.04 per barrel, compared to \$42.12 at the start of the year, and natural gas closed at \$11.23 per mcf versus \$5.79 at the start of 2005.

Strong energy prices led to a continued increase in onshore and offshore drilling activity during 2005. U.S. land rig utilization increased during the year as the rig count rose 23% to 1,372. The increased activity pushed leading edge day rates (the daily cost to the operator of renting the drilling rig) about 50% higher for U.S. land rigs and led to a near doubling of average day rates for offshore rigs. While oil companies experienced higher costs, drilling service companies benefited from both higher activity and a significant increase in pricing throughout their product lines. In addition, drilling contractors in the Gulf of Mexico benefited from a sharp rise in day rates following the loss of or significant damage to 10 jackup rigs and 5 drilling platforms during Hurricanes Katrina and Rita.

The coal market directly benefited from the significant increase in natural gas prices. Rising natural gas prices led to a continued increase in utilization rates at U.S. coal-fired power plants. A majority of the higher demand for coal was satisfied by production out of the western U.S. As a result of the strong demand and a related increase in environmental compliance costs, the relatively clean-burning coal from the western U.S. more than doubled in price, while eastern coal prices were flat. Material and labor costs partially offset the price improvements.

### PERFORMANCE

High earnings and cash flows resulted from robust industry fundamentals and strong capital discipline. Most companies reduced debt, maintained a strong financial position, initiated or expanded share repurchase programs and raised dividends. Petroleum & Resources, as well as the energy indices, significantly outperformed the S&P 500 Index and the Dow Jones Industrial Average. The total return on the Fund's net assets, including income and capital gain distributions for the calendar year, was 32.0%. Comparable figures for the S&P 500 Index and the Dow Jones Industrials were 4.9% and 1.7%, respectively. The Dow Jones Oil & Gas Index returned 32.0%. On a market value basis, Petroleum & Resources' total return was 32.3%.

Stock selection and weightings explain the performance variations between Petroleum & Resources and the indices. The Oil and Gas sector comprises only 9.3% of the S&P 500 and 77.4% of the Petroleum & Resources portfolio. Energy equities in the S&P 500 advanced 31.3% while Petroleum & Resources' energy holdings produced a return of 39.7%. The table below summarizes the weightings and performance of Petroleum & Resources versus the comparable S&P 500 figures.

| Sector | S&P Weighting | PEO Weighting | S&P Return | PEO Return |
|--------|---------------|---------------|------------|------------|
| Energy | 9.3%          | 77.4%         | 31.3%      | 39.7%      |

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|             |       |       |       |       |
|-------------|-------|-------|-------|-------|
| Materials   | 2.9%  | 7.9%  | 4.4%  | 16.9% |
| Industrials | 11.3% | 2.1%  | 2.2%  | -1.5% |
| Utilities   | 3.3%  | 12.6% | 16.7% | 21.0% |

Petroleum & Resources is a conservative equity investment in energy and natural resource companies with a broadly diversified exposure to the energy sector. Comparison against the Dow Jones Oil & Gas Index

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### LETTER TO SHAREHOLDERS (continued)

(DJOGI) provides an industry-specific measure. Petroleum & Resources' gain on both a net asset value and market basis of 32% matched that of the DJOGI. This performance is exceptional when overlaid on our investment objectives of preservation of capital, generation of reasonable income, and providing the opportunity for capital gain. These objectives are met by stock selection across the energy spectrum. Large integrated oil companies, gas distributors, and utilities provided stability and income while exploration and production as well as oil service companies contributed greater capital appreciation. Petroleum & Resources matched the DJOGI while providing diversification and income. We are diversified in several industries not in the DJOGI, including coal, chemicals, paper, gas distributors, and water utilities. Additionally, we invest in foreign energy securities for diversification and income whereas the DJOGI does not include these equities.

#### INVESTMENT RESULTS

Net assets of the Corporation on December 31, 2005 were \$761,913,652 or \$35.24 per share on 21,621,072 shares outstanding. This compares with \$618,887,401 or \$28.16 per share on 21,979,676 shares outstanding a year earlier.

Net investment income for 2005 was \$11,391,783 compared to \$8,924,453 for 2004. These earnings are equivalent to \$0.53 and \$0.41 per share, respectively, on the average number of shares outstanding throughout each year. As a result of the reorganization of Precision Drilling Corp. into a trust in 2005, the Corporation received dividend income of \$3,032,857 or \$0.14 per share. This accounts in large measure for the increase in investment income over 2004 and is not expected to recur in 2006. In 2005, our 0.59% expense ratio (expenses to average net assets) was once again at a low level compared to the industry.

Net realized gains amounted to \$26,239,852 during the year, while the unrealized appreciation on investments increased from \$275,422,891 at December 31, 2004 to \$428,811,345 at year end, a 56% increase.

#### DIVIDENDS AND DISTRIBUTIONS

Total dividends and distributions paid in 2005 were \$1.78 per share compared to \$1.32 in 2004. As announced on November 10, 2005, a year-end distribution consisting of investment income of \$0.25 and capital gains of \$1.14 was made on December 27, 2005, both realized and taxable in 2005. On January 12, 2006, an additional distribution of \$0.13 per share was declared payable March 1, 2006, representing undistributed net investment income and capital gains earned in 2005, taxable to shareholders in 2006.

#### OUTLOOK FOR 2006

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The first few days of 2006 served as a reminder that oil and gas are commodities and their prices are subject to inventory levels and weather. Natural gas prices peaked at more than \$11.00 per mcf then declined 16% due to warm weather and plentiful supplies. However, even after the correction, natural gas prices are at record high levels due to declining North American production compounded by the severe hurricane season. Four months after the hurricanes, about 26% of Gulf of Mexico oil production and 19% of Gulf of Mexico gas remain shut in, and the impact will linger into 2006. Therefore, we expect natural gas prices to remain at historically high levels but to experience volatility due to weather sensitivity. Gas prices for the year 2006 are expected to average slightly less than the \$8.33 per mcf average for 2005, barring another strong hurricane season.

Likewise, as we move through 2006, the same influences that drove world oil prices in 2005, such as rapid world oil demand growth, low OPEC and non-OPEC spare capacity, and refinery constraints, will continue to affect oil markets. Worldwide energy demand growth is expected to continue, with the strongest gains being experienced in the Asia-Pacific region and the U.S. While production capacity growth will remain limited, new supplies both in OPEC and non-OPEC countries should match demand increases. If demand falls, OPEC appears willing to adjust quotas to maintain the oil price above \$50.00 per barrel. However, geopolitical issues and weather are unknowns and will disrupt the apparent balance when they occur. We see tight oil supply-demand fundamentals persisting throughout the year but do not expect them to worsen. Accordingly, we are anticipating an oil price average of \$50-\$60 per barrel.

Earnings for companies in the energy sector will be strong as commodity prices remain at historically high levels. The rate of gain in earnings will slow as costs increase and revenues reflect lower prices. Large integrated energy companies and oil service firms should do well in this environment. Companies will continue to spend cash flow to generate future production gains, directly benefiting the oil service stocks. As noted earlier, returns for energy stocks have exceeded the overall market returns for several years. Since fundamentals still appear strong, we expect our portfolio to continue to perform well in 2006.

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LETTER TO SHAREHOLDERS (continued)

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### SHARE REPURCHASE PROGRAM

On December 8, 2005, the Board of Directors authorized the repurchase by management of an additional 5% of the outstanding shares of the Corporation over the ensuing year. The repurchase program is subject to the restriction that shares can only be repurchased when the discount of the market price of the shares from the net asset value is 6.5% or greater.

From the beginning of 2006 through January 25, 2006, 35,150 shares have been repurchased at a total cost of \$1,216,967 and a weighted average discount from net asset value of 8.1%.

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### DIRECTOR CHANGES

There have been a number of changes in the composition of the Board of Directors in the past year, some of which were noted in our quarterly reports.

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Mr. W. David MacCallan, Chairman of the Corporation for twenty years before retiring in 1991, passed away in August. Mr. Landon Peters passed away earlier in the year and Mr. W. Perry Neff retired. Both had been directors for many years and their advice and guidance are missed. In October, Dr. Susan Schwab was nominated to be Deputy U.S. Trade Representative and confirmed in November, necessitating her resignation from the Board. Though a director for only five years, Dr. Schwab brought a fresh perspective and broad international experience to the Board that will be difficult to replace. To address these departures, the Board of Directors elected two new directors, Dr. Roger W. Gale and Dr. Craig R. Smith, who joined the Board effective December 1, 2005. Each has broad experience in corporate governance. In addition, Dr. Gale brings to the Board specific knowledge of the energy and utility industries. We welcome them and look forward to their participation in the Board's activities.

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The proxy statement for the Annual Meeting of Stockholders to be held in Orlando, Florida on March 28, 2006, is expected to be mailed on or about February 17, 2006.

By order of the Board of Directors,

/s/ Douglas G. Ober

Douglas G. Ober,

Chairman, President and

Chief Executive Officer

January 26, 2006

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### STATEMENT OF ASSETS AND LIABILITIES

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December 31, 2005

#### Assets

##### Investments\* at value:

Common stocks and convertible securities

(cost \$316,230,755)

\$745,022,832

Short-term investments (cost \$17,168,422)

17,168,422

Securities lending collateral (cost \$5,809,478)

5,809,478 \$768

#### Cash

#### Receivables:

Investment securities sold

Dividends

Prepaid pension cost

1

Prepaid expenses and other assets

Total Assets

770

#### Liabilities

Open written option contracts at value (proceeds \$422,668)

Obligations to return securities lending collateral

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Accrued expenses and other liabilities

2

Total Liabilities

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|  |       |
|--|-------|
| Net Assets   | \$761 |
| -----  |       |
| Net Assets   |       |
| Common Stock at par value \$1.00 per share, authorized<br>50,000,000 shares; issued and outstanding 21,621,072 shares (includes<br>4,630 restricted shares and restricted stock units for 4,000 shares) (Note 6) | \$ 21 |
| Additional capital surplus   | 309   |
| Unearned compensation -- restricted stock awards (Note 6)  |       |
| Undistributed net investment income  | 2     |
| Undistributed net realized gain on investments   | 428   |
| Unrealized appreciation on investments   | 2     |
| -----  |       |
| Net Assets Applicable to Common Stock  | \$761 |
| -----  |       |
| Net Asset Value Per Share of Common Stock  |       |
| -----  |       |

\* See schedule of investments on pages 14 through 16.

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

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|  |               |
|--|---------------|
| Investment Income  |               |
| Income:  |               |
| Dividends  | \$ 14,338,074 |
| Interest and other income  | 1,275,182     |
| -----  |               |
| Total income   | 15,613,256    |
| -----  |               |
| Expenses:  |               |
| Investment research  | 1,958,168     |
| Administration and operations                                      | 998,311       |
| Directors' fees  | 309,662       |
| Reports and stockholder communications                             | 230,169       |
| Transfer agent, registrar and custodian expenses                   | 154,527       |
| Auditing and accounting services                                   | 88,133        |
| Legal services   | 84,435        |
| Occupancy and other office expenses                                | 209,850       |
| Travel, telephone and postage                                      | 71,955        |
| Other  | 116,263       |
| -----  |               |
| Total expenses   | 4,221,473     |
| -----  |               |
| Net Investment Income  | 11,391,783    |
| -----  |               |
| Realized Gain and Change in Unrealized Appreciation on Investments |               |
| Net realized gain on security transactions                         | 26,239,852    |
| Change in unrealized appreciation on investments                   | 153,388,454   |
| -----  |               |
| Net Gain on Investments  | 179,628,306   |
| -----  |               |
| Change in Net Assets Resulting from Operations                     | \$191,020,089 |
| -----  |               |

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

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### STATEMENTS OF CHANGES IN NET ASSETS

|  | For the Year Ended |               |
|--|--------------------|---------------|
|  | Dec. 31, 2005      | Dec. 31, 2004 |
| <hr style="border-top: 1px dashed black;"/>  |                    |               |
| From Operations:   |                    |               |
| Net investment income  | \$ 11,391,783      | \$ 8,924,453  |
| Net realized gain on investments   | 26,239,852         | 18,979,327    |
| Change in unrealized appreciation on investments   | 153,388,454        | 90,350,341    |
| <hr style="border-top: 1px dashed black;"/>  |                    |               |
| Change in net assets resulting from operations   | 191,020,089        | 118,254,121   |
| <hr style="border-top: 1px dashed black;"/>  |                    |               |
| Distributions to Stockholders From:  |                    |               |
| Net investment income  | (12,030,248)       | (9,536,803)   |
| Net realized gain from investment transactions   | (25,924,473)       | (19,037,472)  |
| <hr style="border-top: 1px dashed black;"/>  |                    |               |
| Decrease in net assets from distributions  | (37,954,721)       | (28,574,275)  |
| <hr style="border-top: 1px dashed black;"/>  |                    |               |
| From Capital Share Transactions:   |                    |               |
| Value of shares issued in payment of distributions   | 14,748,314         | 9,629,174     |
| Cost of shares purchased (note 4)  | (24,891,727)       | (3,362,898)   |
| Deferred compensation (notes 4, 6)   | 104,296            | --            |
| <hr style="border-top: 1px dashed black;"/>  |                    |               |
| Change in net assets from capital share transactions   | (10,039,117)       | 6,266,276     |
| <hr style="border-top: 1px dashed black;"/>  |                    |               |
| Total Increase in Net Assets   | 143,026,251        | 95,946,122    |
| <hr style="border-top: 1px dashed black;"/>  |                    |               |
| Net Assets:  |                    |               |
| Beginning of year  | 618,887,401        | 522,941,279   |
| <hr style="border-top: 1px dashed black;"/>  |                    |               |
| End of year (including undistributed net investment income of \$106,632 and \$746,047, respectively) | \$761,913,652      | \$618,887,401 |
| <hr style="border-top: 1px dashed black;"/>  |                    |               |

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

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### NOTES TO FINANCIAL STATEMENTS

#### 1. SIGNIFICANT ACCOUNTING POLICIES

Petroleum & Resources Corporation (the Corporation) is registered under the Investment Company Act of 1940 as a non-diversified investment company. The Corporation's investment objectives as well as the nature and risk of its investment transactions are set forth in the Corporation's registration statement.

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

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

### 2. FEDERAL INCOME TAXES

The Corporation's policy is to distribute all of its taxable income to its shareholders in compliance with the requirements of the Internal Revenue Code applicable to regulated investment companies. Therefore, no federal income tax provision is required. For federal income tax purposes, the identified cost of securities at December 31, 2005 was \$339,178,832, and net unrealized appreciation aggregated \$428,821,900, of which the related gross unrealized appreciation and depreciation were \$432,696,292 and \$3,874,392, respectively. As of December 31, 2005, the tax basis of distributable earnings was \$1,156,731 of undistributed ordinary income and \$1,402,776 of undistributed long-term capital gain.

Distributions paid by the Corporation during the year ended December 31, 2005 were classified as ordinary income of \$15,437,432 and capital gain of \$22,517,289. In comparison, distributions paid by the Corporation during the year ended December 31, 2004 were classified as ordinary income of \$9,971,538 and capital gain of \$18,602,737. The distributions are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. Accordingly, periodic reclassifications are made within the Corporation's capital accounts to reflect income and gains available for distribution under income tax regulations.

### 3. INVESTMENT TRANSACTIONS

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

Purchases and sales of portfolio securities, other than options and short-term investments, during the year ended December 31, 2005 were \$68,079,797 and \$72,252,597, respectively. Options may be written (sold) or purchased by the Corporation. The Corporation, as writer of an option, bears the market risk of an unfavorable change in the price of the security underlying the written option. The risk associated with purchasing an option is limited to the premium originally paid. A schedule of outstanding option contracts as of December 31, 2005 can be found on page 17.

Transactions in written covered call and collateralized put options during the year ended December 31, 2005 were as follows:

| Covered Calls |          | Collateralized Puts |          |
|---------------|----------|---------------------|----------|
| Contracts     | Premiums | Contracts           | Premiums |
| -----         | -----    | -----               | -----    |

Options outstanding,

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|   |         |            |         |            |
|---|---------|------------|---------|------------|
| December 31, 2004                                   | 1,550   | \$ 204,167 | 1,470   | \$ 167,283 |
| Options written                                     | 7,570   | 942,954    | 4,950   | 496,306    |
| Options terminated in closing purchase transactions | (1,350) | (187,354)  | --      | --         |
| Options expired                                     | (2,500) | (261,840)  | (5,370) | (533,698)  |
| Options exercised                                   | (3,330) | (405,150)  | --      | --         |
|   |         |            |         |            |
| Options outstanding, December 31, 2005              | 1,940   | \$ 292,777 | 1,050   | \$ 129,891 |
|   |         |            |         |            |

#### 4. CAPITAL STOCK

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

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

On December 27, 2005, the Corporation issued 438,416 shares of its Common Stock at a price of \$33.64 per share (the average market price on December 12, 2005) to stockholders of record November 22, 2005 who elected to take stock in payment of the distribution from 2005 capital gain and investment income.

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

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#### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

|   | Shares    |           | Amount         |              |
|---|-----------|-----------|----------------|--------------|
|   | 2005      | 2004      | 2005           | 2004         |
| Shares issued in payment of distributions   | 438,416   | 380,149   | \$ 14,748,314  | \$ 9,629,174 |
| Shares purchased (at an average discount from net asset value of 8.1% and 8.0%, respectively) | (806,050) | (137,250) | (24,891,727)   | (3,362,898)  |
| Restricted shares/units granted under the equity incentive compensation plan                  | 9,030     | --        | 104,296        | --           |
|   |           |           |                |              |
| Net change  | (358,604) | 242,899   | \$(10,039,117) | \$ 6,266,276 |
|   |           |           |                |              |

#### 5. RETIREMENT PLANS

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The Corporation provides retirement benefits for its employees under a non-contributory qualified defined benefit pension plan and a non-contributory nonqualified defined benefit pension plan. The benefits are based on years of service and compensation during the last five years of employment.

The Corporation uses a December 31 measurement date for its plans.

|  | 2005         | 2004           |
|--|--------------|----------------|
|  | -----        | -----          |
| Change in benefit obligation                   |              |                |
| Benefit obligation at beginning of year        | \$4,519,368  | \$ 3,989,256   |
| Service cost                                   | 185,168      | 137,080        |
| Interest cost                                  | 281,088      | 245,422        |
| Actuarial loss                                 | 66,553       | 270,897        |
| Benefits paid                                  | (104,925)    | (123,287)      |
| -----  |              |                |
| Benefit obligation at end of year              | \$4,947,252  | \$ 4,519,368   |
| -----  |              |                |
| Change in plan assets                          |              |                |
| Fair value of plan assets at beginning of year | \$3,505,688  | \$ 2,749,114   |
| Actual return on plan assets                   | 106,795      | 243,186        |
| Employer contribution                          | 455,520      | 636,675        |
| Benefits paid                                  | (104,925)    | (123,287)      |
| -----  |              |                |
| Fair value of plan assets at end of year       | \$3,963,078  | \$ 3,505,688   |
| -----  |              |                |
| Funded status                                  | \$ (984,174) | \$ (1,013,680) |
| Unrecognized net loss                          | 1,361,416    | 1,332,884      |
| Unrecognized prior service cost                | 152,389      | 178,830        |
| -----  |              |                |
| Net amount recognized                          | \$ 529,631   | \$ 498,034     |
| -----  |              |                |

Amounts recognized in the statement of assets and liabilities consist of:

|                       | 2005        | 2004       |
|-----------------------|-------------|------------|
|                       | -----       | -----      |
| Prepaid pension cost  | \$1,032,479 | \$ 985,707 |
| Accrued pension cost  | (502,848)   | (487,673)  |
| -----                 |             |            |
| Net amount recognized | \$ 529,631  | \$ 498,034 |
| -----                 |             |            |

The accumulated benefit obligation for all defined benefit pension plans was \$3,491,069 and \$3,533,866 at December 31, 2005, and 2004, respectively.

|  | 2005  | 2004  |
|--|-------|-------|
|  | ----- | ----- |

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| Components of net periodic pension cost |            |            |
|---|------------|------------|
| Service cost                            | \$ 185,168 | \$ 137,080 |
| Interest cost                           | 281,088    | 245,422    |
| Actual return on plan assets            | (106,795)  | (243,186)  |
| Amortization of prior service cost      | 54,913     | 57,851     |
| Amortization of net loss                | 180,246    | 132,729    |
| Deferred asset gain                     | (173,395)  | 26,391     |
|   |            |            |
| Net periodic pension cost               | \$ 421,225 | \$ 356,287 |
|   |            |            |

Assumptions used to determine benefit obligations and costs are:

|  | 2005  | 2004  |
|--|-------|-------|
|  | ----- | ----- |
| Discount rate                            | 5.75% | 5.75% |
| Expected long-term return on plan assets | 8.00% | 8.00% |
| Rate of compensation increase            | 7.00% | 7.00% |

The assumption for the expected long-term return on plan assets is based on the actual long-term historical returns realized by the plan assets, weighted according to the current asset mix.

The asset allocations at December 31, 2005 and 2004, by asset category, are as follows:

|   | 2005  | 2004  |
|---|-------|-------|
|   | ----- | ----- |
| Asset Category                          |       |       |
| Equity Securities & Equity Mutual Funds | 70%   | 71%   |
| Fixed Income Mutual Funds               | 29%   | 25%   |
| Cash                                    | 1%    | 4%    |

Equity securities include shares of The Adams Express Company, the Corporation's non-controlled affiliate, in the amount of \$203,280 (5% of total plan assets) and \$201,285 (6% of total plan assets) at December 31, 2005 and 2004, respectively.

The primary objective of the Corporation's pension plan is to provide capital appreciation, current income, and preservation of capital through a portfolio of stocks and fixed income securities. The equity portion of the portfolio may range from 50% to 75% of total portfolio assets. The fixed income portion of the portfolio may range from 25% to 50% of total portfolio assets and cash may range from 0% to 25% of total portfolio assets. Subject to these allocation ranges, the portfolio may be invested in any of the following securities: common stocks, preferred stocks, American Depository Receipts, foreign securities, mutual funds, convertible securities, municipal bonds, corporate bonds, U.S. government securities and U.S. government agency securities.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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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. The Corporation anticipates making contributions of approximately \$430,000 to the plans in 2006.

The following benefit payments, which reflect expected future service, are expected to be paid:

| Pension Benefits |            |
|------------------|------------|
| -----            |            |
| 2006             | \$ 146,637 |
| 2007             | 144,937    |
| 2008             | 281,720    |
| 2009             | 277,743    |
| 2010             | 313,509    |
| Years 2011-2015  | 1,615,595  |

The Corporation also sponsors a defined contribution plan that covers substantially all employees. The Corporation expensed contributions of \$85,570 and \$56,822 for the years ended December 31, 2005 and December 31, 2004, respectively. The Corporation does not provide postretirement medical benefits.

### 6. Stock-Based Compensation

The Stock Option Plan adopted in 1985 ("1985 Plan") permits the issuance of stock options and stock appreciation rights for the purchase of up to 895,522 shares of the Corporation's Common Stock at the fair market value on the date of grant. The exercise price of the options and related stock appreciation rights is reduced by the per share amount of capital gains paid by the Corporation during subsequent years. Options are exercisable beginning not less than one year after the date of grant and stock appreciation rights are exercisable beginning not less than two years after the date of grant. The stock appreciation rights allow the holders to surrender their rights to exercise their options and receive cash or shares in an amount equal to the difference between the option exercise price and the fair market value of the Common Stock at the date of surrender. All options terminate 10 years from the date of grant if not exercised. With the adoption of the 2005 Equity Incentive Compensation Plan at the 2005 Annual Meeting, no further grants will be made under the 1985 Plan, although unexercised awards granted in 2004 and prior years remain outstanding.

A summary of option activity under the 1985 Plan as of December 31, 2005, and changes during the period then ended is presented below:

|                                | Options  | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Life (Years) |
|--------------------------------|----------|---|---|
|                                | -----    | -----                                     | -----   |
| Outstanding at January 1, 2005 | 128,543  | \$18.81                                   |   |
| Exercised                      | (24,546) | 15.99                                     |   |
| Forfeited                      | --       | --  |   |

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|                                  |         |         |      |
|----------------------------------|---------|---------|------|
| Outstanding at December 31, 2005 | 103,997 | \$18.24 | 5.07 |
| Exercisable at December 31, 2005 | 42,823  | \$18.37 | 4.90 |

The options outstanding as of December 31, 2005 are set forth below:

| Exercise price                   | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life (Years) |
|----------------------------------|---------------------|---------------------------------|---|
| \$13.00-\$15.49                  | 16,898              | \$13.25                         | 2.06                                    |
| \$15.50-\$17.99                  | 32,301              | 16.39                           | 4.42                                    |
| \$18.00-\$20.49                  | 23,057              | 19.70                           | 6.39                                    |
| \$20.50-\$23.00                  | 31,741              | 21.73                           | 6.40                                    |
| Outstanding at December 31, 2005 | 103,997             | \$18.24                         | 5.07                                    |

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 recognized for the year ended December 31, 2005 was \$830,097.

The 2005 Equity Incentive Compensation Plan ("2005 Plan") permits the grant of stock options, restricted stock awards and other stock incentives to key employees and all non-employee directors. The 2005 Plan provides for the issuance of up to 872,639 shares of the Corporation's Common Stock. Restricted stock was granted to key employees on April 27, 2005 at fair market value on that date, vesting over a three year period. Restricted stock units were granted to non-employee directors on April 27, 2005 and to new directors on December 1, 2005 at fair market value on grant date and vest over a one year period. The total fair value of units that vested in 2005 was \$12,500 due to the death of a director, which thereby accelerated the vesting schedule. The number of shares of Common Stock which remain available for future grants

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

under the 2005 Plan at December 31, 2005 is 863,609 shares. The Corporation pays dividends and dividend equivalents on outstanding awards, which are charged to net assets when paid. Dividends and dividend equivalents paid on awards that are later forfeited are reclassified to compensation expense.

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

Weighted Average



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| Awards                       | Shares/<br>Units | Grant-Date Fair<br>Value |
|------------------------------|------------------|--------------------------|
| -----                        | -----            | -----                    |
| Balance at January 1, 2006   | --               | --                       |
| Granted:                     |                  |                          |
| Restricted stock             | 4,630            | \$28.06                  |
| Restricted stock units       | 4,400            | 28.62                    |
| Vested                       | (400)            | 28.06                    |
| Forfeited                    | --               | --                       |
| -----                        |                  |                          |
| Balance at December 31, 2005 | 8,630            | \$28.35                  |
| -----                        |                  |                          |

Compensation costs resulting from restricted stock and restricted stock units granted under the 2005 Plan are recognized over the requisite service period based on the fair value of the awards on grant date. Any unearned compensation is subsequently expensed as services are rendered. The fair value of restricted shares is based on the average of the high and low market price on the date an award is granted. The total compensation costs for restricted stock granted to employees for the year ended December 31, 2005 were \$28,884. The total compensation costs for restricted stock units granted to non-employee directors under the 2005 Plan for the year ended December 31, 2005 were \$75,412. As of December 31, 2005, there were total unrecognized compensation costs of \$152,834 related to nonvested share-based compensation arrangements granted under the 2005 Plan. Those costs are expected to be recognized over a weighted average period of 1.7 years.

### 7. EXPENSES

The aggregate remuneration paid or accrued during the year ended December 31, 2005 to officers and directors amounted to \$1,504,166, of which \$309,662 was paid as fees to directors who were not officers.

### 8. PORTFOLIO SECURITIES LOANED

The Corporation makes loans of securities to brokers, secured by cash, 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. At December 31, 2005, the Corporation had securities on loan of \$5,687,500, and held collateral of \$5,809,478, 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

| ----- | Year Ended December 31 |      |      |      |
|-------|------------------------|------|------|------|
| ----- | 2005                   | 2004 | 2003 | 2002 |
| ----- | -----                  |      |      |      |

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| Per Share Operating Performance                                       |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Net asset value, beginning of year                                    | \$28.16   | \$24.06   | \$20.98   | \$24.90   |
| Net investment income   | 0.53*     | 0.41      | 0.38      | 0.42      |
| Net realized gains and increase (decrease) in unrealized appreciation | 8.29      | 5.05      | 3.89      | (3.20)    |
| Total from investment operations                                      | 8.82      | 5.46      | 4.27      | (2.78)    |
| Less distributions  |           |           |           |           |
| Dividends from net investment income                                  | (0.56)    | (0.44)    | (0.38)    | (0.43)    |
| Distributions from net realized gains                                 | (1.22)    | (0.88)    | (0.81)    | (0.68)    |
| Total distributions   | (1.78)    | (1.32)    | (1.19)    | (1.11)    |
| Capital share repurchases   | 0.10      | 0.01      | 0.02      | 0.01      |
| Reinvestment of distributions   | (0.06)    | (0.05)    | (0.02)    | (0.04)    |
| Total capital share transactions                                      | 0.04      | (0.04)    | 0.00      | (0.03)    |
| Net asset value, end of year  | \$35.24   | \$28.16   | \$24.06   | \$20.98   |
| Per share market price, end of year                                   | \$32.34   | \$25.78   | \$23.74   | \$19.18   |
| Total Investment Return   |           |           |           |           |
| Based on market price   | 32.3%     | 14.4%     | 30.8%     | (13.7)%   |
| Based on net asset value  | 32.0%     | 23.3%     | 21.2%     | (11.1)%   |
| Ratios/Supplemental Data  |           |           |           |           |
| Net assets, end of year (in 000's)                                    | \$761,914 | \$618,887 | \$522,941 | \$451,275 |
| Ratio of expenses to average net assets                               | 0.59%     | 0.56%     | 0.74%     | 0.49%     |
| Ratio of net investment income to average net assets                  | 1.61%     | 1.58%     | 1.75%     | 1.84%     |
| Portfolio turnover  | 10.15%    | 13.44%    | 10.20%    | 9.69%     |
| Number of shares outstanding at end of year (in 000's)                | 21,621    | 21,980    | 21,737    | 21,510    |

\* In 2005 the Fund received dividend income of \$3,032,857, or \$0.14 per share, as a result of Precision Drilling Corp.'s reorganization.

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### SCHEDULE OF INVESTMENTS

December 31, 2005

|  | Shares    | Value (A)     |
|--|-----------|---------------|
| -----                                      |           |               |
| Stocks and Convertible Securities -- 97.8% |           |               |
| Energy -- 86.5%                            |           |               |
| Internationals -- 22.4%                    |           |               |
| BP plc ADR.....                            | 600,000   | \$ 38,532,000 |
| Chevron Corp.....                          | 635,000   | 36,048,950    |
| Exxon Mobil Corp.....                      | 1,140,000 | 64,033,800    |

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|                                   |         |             |
|-----------------------------------|---------|-------------|
| Royal Dutch Shell plc ADR.....    | 275,000 | 16,909,750  |
| Total S.A. ADR.....               | 120,000 | 15,168,000  |
|                                   |         | -----       |
|                                   |         | 170,692,500 |
|                                   |         | -----       |
| Domestics -- 11.3%                |         |             |
| Alon USA Energy, Inc. (B).....    | 6,000   | 117,900     |
| Amerada Hess Corp.....            | 65,000  | 8,243,300   |
| ConocoPhillips.....               | 510,000 | 29,671,800  |
| Holly Corp.....                   | 210,000 | 12,362,700  |
| Kerr-McGee Corp.....              | 107,647 | 9,780,806   |
| Murphy Oil Corp.....              | 256,400 | 13,843,036  |
| Valero Energy Corp.....           | 240,000 | 12,384,000  |
|                                   |         | -----       |
|                                   |         | 86,403,542  |
|                                   |         | -----       |
| Producers -- 20.3%                |         |             |
| Apache Corp.....                  | 177,000 | 12,128,040  |
| Burlington Resources Inc.....     | 246,800 | 21,274,160  |
| Devon Energy Corp.....            | 355,000 | 22,201,700  |
| EOG Resources, Inc.....           | 345,000 | 25,312,650  |
| Newfield Exploration Co. (B)..... | 175,000 | 8,762,250   |
| Noble Energy, Inc.....            | 430,000 | 17,329,000  |
| Occidental Petroleum Corp.....    | 200,000 | 15,976,000  |
| Pioneer Natural Resources Co..... | 250,000 | 12,817,500  |
| XTO Energy Inc.....               | 435,000 | 19,113,900  |
|                                   |         | -----       |
|                                   |         | 154,915,200 |
|                                   |         | -----       |
| Distributors -- 12.3%             |         |             |
| AGL Resources Inc.....            | 170,000 | 5,917,700   |
| Duke Energy Corp. (C).....        | 217,624 | 5,973,779   |
| Energen Corp.....                 | 400,000 | 14,528,000  |
| Equitable Resources, Inc.....     | 450,000 | 16,510,500  |
| Keyspan Corp.....                 | 70,000  | 2,498,300   |
| MDU Resources Group, Inc.....     | 250,000 | 8,185,000   |
| National Fuel Gas Co.....         | 200,000 | 6,238,000   |
| New Jersey Resources Corp.....    | 200,000 | 8,378,000   |
| Questar Corp.....                 | 200,000 | 15,140,000  |
| Williams Companies, Inc.....      | 450,000 | 10,426,500  |
|                                   |         | -----       |
|                                   |         | 93,795,779  |
|                                   |         | -----       |

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SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2005

|                       | Shares<br>or Units | Value (A)    |
|-----------------------|--------------------|--------------|
| -----                 |                    |              |
| Services -- 20.2%     |                    |              |
| Baker Hughes Inc..... | 130,000            | \$ 7,901,400 |
| BJ Services Co.....   | 740,000            | 27,135,800   |

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|   |         |               |
|---|---------|---------------|
| GlobalSantaFe Corp.....                   | 290,000 | 13,963,500    |
| Grant Prideco Inc. (B).....               | 308,000 | 13,588,960    |
| Hercules Offshore, Inc. (B).....          | 126,000 | 3,579,660     |
| Nabors Industries Ltd. (B).....           | 260,000 | 19,695,000    |
| Noble Corp.....                           | 185,000 | 13,049,900    |
| Precision Drilling Income Trust Units.... | 300,000 | 9,870,000     |
| Schlumberger Ltd.....                     | 280,000 | 27,202,000    |
| Weatherford International Ltd. (B).....   | 493,560 | 17,866,872    |
|   |         | -----         |
|   |         | 153,853,092   |
|   |         | -----         |
| Basic Industries -- 11.3%                 |         |               |
| Basic Materials & Other -- 10.7%          |         |               |
| Air Products and Chemicals, Inc.....      | 125,000 | 7,398,750     |
| Aqua America, Inc.....                    | 394,799 | 10,778,013    |
| Arch Coal Inc.....                        | 200,000 | 15,900,000    |
| Consol Energy Inc.....                    | 178,700 | 11,647,666    |
| duPont (E.I.) de Nemours and Co.....      | 157,500 | 6,693,750     |
| General Electric Co.....                  | 454,800 | 15,940,740    |
| Martin Marietta Materials, Inc.....       | 40,000  | 3,068,800     |
| Rohm & Haas Co.....                       | 200,000 | 9,684,000     |
|   |         | -----         |
|   |         | 81,111,719    |
|   |         | -----         |
| Paper and Forest Products -- 0.6%         |         |               |
| Smurfit-Stone Container Corp. (B).....    | 300,000 | 4,251,000     |
|   |         | -----         |
| Total Stocks and Convertible Securities   |         |               |
| (Cost \$316,230,755) (D).....             |         | \$745,022,832 |
|   |         | -----         |

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SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2005

|   | Prin. Amt.  | Value (A)    |
|---|-------------|--------------|
| -----   |             |              |
| Short-Term Investments -- 2.2%                              |             |              |
| U.S. Government Obligations -- 1.0%                         |             |              |
| U.S. Treasury Bills, 3.91%, due 2/16/06.....                | \$7,500,000 | \$ 7,462,529 |
|   |             | -----        |
| Time Deposit -- 0.1%  |             |              |
| Wachovia Bank Grand Cayman, 3.30%, due 1/3/06.....          |             | 463,973      |
|   |             | -----        |
| Commercial Paper -- 1.2%                                    |             |              |
| American General Finance, Inc., 4.30%, due 1/10/06.....     | 4,750,000   | 4,744,043    |
| General Electric Capital Corp., 4.23-4.26%, due 1/5/06..... | 4,500,000   | 4,497,877    |
|   |             | -----        |
|   |             | 9,241,920    |
|   |             | -----        |
| Total Short-Term Investments                                |             |              |

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|  |               |
|--|---------------|
| (Cost \$17,168,422).....                                   | 17,168,422    |
| <hr style="border-top: 1px dashed black;"/>                |               |
| Securities Lending Collateral -- 0.8%                      |               |
| Brown Brothers Investment Trust, 4.23%, due 1/3/06.....    | 5,809,478     |
| <hr style="border-top: 1px dashed black;"/>                |               |
| Total Securities Lending Collateral                        |               |
| (Cost \$5,809,478).....                                    | 5,809,478     |
| <hr style="border-top: 1px dashed black;"/>                |               |
| Total Investments -- 100.8%                                |               |
| (Cost \$339,208,655).....                                  | 768,000,732   |
| Cash, receivables, prepaid expenses and other assets, less |               |
| liabilities -- (0.8)%.....                                 | (6,087,080)   |
| <hr style="border-top: 1px dashed black;"/>                |               |
| Net Assets -- 100%.....                                    | \$761,913,652 |

Notes:

- (A) See note 1 to financial statements. Securities are listed on the New York Stock Exchange, the American Stock Exchange, or the NASDAQ.
- (B) Presently non-dividend paying.
- (C) All or a portion of these securities are on loan. See Note 8 to Financial Statements.
- (D) The aggregate market value of stocks held in escrow at December 31, 2005 covering open call option contracts written was \$13,289,140. In addition, the required aggregate market value of securities segregated by the custodian to collateralize open put option contracts written was \$5,437,500.

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### SCHEDULE OF OUTSTANDING OPTION CONTRACTS

| December 31, 2005                           |                                 |                 |                                |                                 |  |  |
|---|---------------------------------|-----------------|--------------------------------|---------------------------------|--|--|
| Contracts<br>(100 shares<br>each)           | Security                        | Strike<br>Price | Contract<br>Expiration<br>Date | Appreciation/<br>(Depreciation) |  |  |
|   |                                 |                 |                                |                                 |  |  |
| COVERED CALLS                               |                                 |                 |                                |                                 |  |  |
| 120   | Apache Corp.....                | \$ 70           | Jan 06                         | \$ 9,239                        |  |  |
| 150   | Aqua America, Inc.....          | 30              | Jun 06                         | (3,291)                         |  |  |
| 150   | Burlington Resources Inc.....   | 80              | Jan 06                         | (84,450)                        |  |  |
| 200   | ConocoPhillips.....             | 65              | Feb 06                         | 7,399                           |  |  |
| 200   | ConocoPhillips.....             | 75              | May 06                         | 11,399                          |  |  |
| 100   | Devon Energy Corp.....          | 65              | Jan 06                         | 1,699                           |  |  |
| 100   | EOG Resources, Inc.....         | 70              | Jan 06                         | (22,801)                        |  |  |
| 100   | EOG Resources, Inc.....         | 85              | Jan 06                         | 27,199                          |  |  |
| 50  | Kerr-McGee Corp.....            | 100             | Feb 06                         | 3,100                           |  |  |
| 50  | Kerr-McGee Corp.....            | 100             | Apr 06                         | 3,849                           |  |  |
| 100   | Kerr-McGee Corp.....            | 105             | Jul 06                         | 6,699                           |  |  |
| 100   | Martin Marietta Materials, Inc. | 75              | Jan 06                         | (22,300)                        |  |  |
| 100   | Pioneer Natural Resources Co... | 65              | Mar 06                         | 5,199                           |  |  |
| 250   | Royal Dutch Shell plc.....      | 70              | Jan 06                         | 21,748                          |  |  |
| 150   | Schlumberger Ltd.....           | 100             | Jan 06                         | (2,700)                         |  |  |
| 20  | Total S.A.....                  | 155             | May 06                         | 2,640                           |  |  |
| <hr style="border-top: 1px dashed black;"/> |                                 |                 |                                |                                 |  |  |
| 1,940..                                     |                                 |                 |                                | (35,372)                        |  |  |
| <hr style="border-top: 1px dashed black;"/> |                                 |                 |                                |                                 |  |  |

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| COLLATERALIZED PUTS |                                 |       |     |    |  |           |
|---------------------|---------------------------------|-------|-----|----|--|-----------|
| 100                 | Consol Energy Inc.....          | 50    | Jan | 06 |  | 11,199    |
| 150                 | Exxon Mobil Corp.....           | 55    | Jan | 06 |  | 16,798    |
| 250                 | Exxon Mobil Corp.....           | 52.50 | Apr | 06 |  | (7,000)   |
| 150                 | Exxon Mobil Corp.....           | 50    | Jul | 06 |  | (3,450)   |
| 100                 | Martin Marietta Materials, Inc. | 65    | Jan | 06 |  | 11,449    |
| 100                 | Martin Marietta Materials, Inc. | 65    | Apr | 06 |  | 11,945    |
| 200                 | Valero Energy Corp.....         | 37.50 | Jan | 06 |  | 13,699    |
| -----               |                                 |       |     |    |  |           |
| 1,050..             |                                 |       |     |    |  | 54,640    |
| -----               |                                 |       |     |    |  |           |
|                     |                                 |       |     |    |  | \$ 19,268 |
|                     |                                 |       |     |    |  | =====     |

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CHANGES IN PORTFOLIO SECURITIES

During the Three Months Ended December 31, 2005  
(unaudited)

|                                       | Shares or Units |              |                       |
|---------------------------------------|-----------------|--------------|-----------------------|
|                                       | Additions       | Reductions   | Held<br>Dec. 31, 2005 |
| Aqua America, Inc.....                | 104,999/(1)/    | 25,200       | 394,799               |
| Arch Coal Inc.....                    | 40,000          |              | 200,000               |
| Consol Energy Inc.....                | 20,000          |              | 178,700               |
| Hercules Offshore, Inc.....           | 126,000         |              | 126,000               |
| Precision Drilling Income Trust Units | 300,000/(2)/    |              | 300,000               |
| Valero Energy Corp.....               | 160,000/(3)/    |              | 240,000               |
| Weatherford International Ltd.....    | 288,560/(4)/    |              | 493,560               |
| AGL Resources Inc.....                |                 | 27,000       | 170,000               |
| ConocoPhillips.....                   |                 | 50,000       | 510,000               |
| Martin Marietta Materials, Inc.....   |                 | 20,000       | 40,000                |
| New Jersey Resources Corp.....        |                 | 23,800       | 200,000               |
| Pioneer Natural Resources Co.....     |                 | 41,000       | 250,000               |
| Precision Drilling Corp.....          |                 | 200,000/(2)/ | --                    |

/(1) /By stock split.

/(2) /Received one share of Precision Drilling Income Trust Units for each share of Precision Drilling Corp. surrendered.

/(3) /Received 120,000 shares by stock split.

/(4) /Received 246,780 shares by stock split. Received 41,780 shares by stock dividend on shares of Precision Drilling Corp. held.

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

Petroleum & Resources Corporation  
Seven St. Paul Street, Suite 1140, Baltimore, MD 21202  
(410) 752-5900 or (800) 638-2479

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

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

Counsel: Chadbourne & Parke L.L.P.

Independent Registered Public Accounting Firm: PricewaterhouseCoopers LLP  
Transfer Agent & Registrar: American Stock Transfer & Trust Co.

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Custodian of Securities: Brown Brothers Harriman & Co.

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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To the Board of Directors and Stockholders of Petroleum & Resources Corporation:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Petroleum & Resources Corporation (hereafter referred to as the "Corporation") at December 31, 2005, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Baltimore, Maryland  
January 13, 2006

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## HISTORICAL FINANCIAL STATISTICS

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| Dec. 31 | Value of<br>Net Assets | Shares<br>Outstanding* | Net Asset<br>Value<br>Per Share* | Dividends<br>From Net<br>Investment<br>Income<br>Per Share* | Distributions<br>From Net<br>Realized<br>Gains<br>Per Share* |
|---------|------------------------|------------------------|----------------------------------|---|--|
| 1991    | \$314,024,187          | 16,778,358             | \$18.71                          | \$.61   | \$.82  |
| 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  |

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|      |             |            |       |     |      |
|------|-------------|------------|-------|-----|------|
| 1997 | 556,452,549 | 20,134,181 | 27.64 | .51 | 1.04 |
| 1998 | 474,821,118 | 20,762,063 | 22.87 | .52 | 1.01 |
| 1999 | 565,075,001 | 21,471,270 | 26.32 | .48 | 1.07 |
| 2000 | 688,172,867 | 21,053,644 | 32.69 | .39 | 1.35 |
| 2001 | 526,491,798 | 21,147,563 | 24.90 | .43 | 1.07 |
| 2002 | 451,275,463 | 21,510,067 | 20.98 | .43 | .68  |
| 2003 | 522,941,279 | 21,736,777 | 24.06 | .38 | .81  |
| 2004 | 618,887,401 | 21,979,676 | 28.16 | .44 | .88  |
| 2005 | 761,913,652 | 21,621,072 | 35.24 | .56 | 1.22 |

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

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### OTHER INFORMATION

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#### STATEMENT ON QUARTERLY FILING OF COMPLETE PORTFOLIO SCHEDULE

In addition to publishing its complete schedule of portfolio holdings in the First and Third Quarter Reports to shareholders, the Corporation also files its complete schedule of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q. The Corporation's Forms N-Q are available on the Commission's website at [www.sec.gov](http://www.sec.gov). The Corporation's Forms N-Q may be reviewed and copied at the Commission's Public Reference Room, and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The Corporation also posts its Forms N-Q on its website at: [www.peteres.com](http://www.peteres.com), under the heading "Financial Reports".

#### ANNUAL CERTIFICATION

The Corporation's CEO has submitted to the New York Stock Exchange the annual CEO certification as required by Section 303A.12(a) of the NYSE Listed Company Manual.

#### PROXY VOTING POLICIES AND RECORD

A description of the policies and procedures that the Corporation uses to determine how to vote proxies relating to portfolio securities owned by the Corporation and information as to how the Corporation voted proxies relating to portfolio securities during the 12 month period ended June 30, 2005 are available (i) without charge, upon request, by calling the Corporation's toll free number at (800) 638-2479; (ii) on the Corporation's website by clicking on "Corporate Information" heading on the website; and (iii) on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

#### FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities 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



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the Corporation's periodic filings with the Securities and Exchange Commission.

### PRIVACY POLICY

In order to conduct its business, the Corporation collects and maintains certain nonpublic personal information about our stockholders of record with respect to their transactions in shares of our securities. This information includes the stockholder's address, tax identification or Social Security number, share balances, and dividend elections. We do not collect or maintain personal information about stockholders whose shares of our securities are held in "street name" by a financial institution such as a bank or broker.

We do not disclose any nonpublic personal information about you, our other stockholders or our former stockholders to third parties unless necessary to process a transaction, service an account or as otherwise permitted by law.

To protect your personal information internally, we restrict access to nonpublic personal information about our stockholders to those employees who need to know that information to provide services to our stockholders. We also maintain certain other safeguards to protect your nonpublic personal information.

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

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### SHAREHOLDER INFORMATION AND SERVICES

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WE ARE OFTEN ASKED --

How do I invest in Petroleum & Resources?

Petroleum & Resources Common Stock is listed on the New York Stock Exchange and Pacific Exchange. The stock's ticker symbol is "PEO" and may be bought and sold through registered investment security dealers. Your broker will be able to assist you in this regard. In addition, stock may be purchased through our transfer agent, American Stock Transfer & Trust Company's INVESTORS CHOICE Plan (see page 22).

Where do I get information on the stock's price, trading and/or net asset value?

The daily net asset value (NAV) per share and closing market price may be obtained from our website at [www.peteres.com](http://www.peteres.com). The daily NAV is also available on the NASDAQ Mutual Fund Quotation System under the symbol XPEOX. The week-ending NAV is published on Saturdays in various newspapers and on Mondays in The Wall Street Journal in a table titled "Closed-End Funds." The table compares the net asset value at the close of the week's last business day to the market price of the shares, and shows the amount of the discount or premium.

Petroleum's daily trading is shown in the stock tables of most daily newspapers, often with the abbreviated form "PetRs." Local newspapers determine, usually by volume of traded shares, which securities to list. If your paper does not carry our listing, please telephone the Corporation at (800) 638-2479 or visit our website.

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How do I replace a lost certificate(s) or how do I correct a spelling error on my certificate?

Your Petroleum stock certificates are valuable documents and should be kept in a safe place. For tax purposes, keep a record of each certificate, including the cost or market value of the shares it covers at the time acquired. If a certificate is lost, destroyed or stolen, notify the transfer agent immediately so a "stop transfer" order can be placed on the records to prevent an unauthorized transfer of your certificate. The necessary forms and requirements to permit the issuance of a replacement certificate will then be sent to you. A certificate can be replaced only after the receipt of an affidavit regarding the loss accompanied by an open surety bond, for which a small premium is paid by the stockholder.

In the event a certificate is issued with the holder's name incorrectly spelled, a correction can only be made if the certificate is returned to the transfer agent with instructions for correcting the error. Transferring shares to another name also requires that the certificate be forwarded to the transfer agent with the appropriate assignment forms completed and the signature of the registered owner Medallion guaranteed by a bank or member firm of The New York Stock Exchange, Inc.

Is direct deposit of my dividend checks available?

Yes, our transfer agent offers direct deposit of your interim dividend and year-end distribution checks. You can request direct deposit with American Stock Transfer either on-line or by calling them at the phone number provided on page 22.

Who do I notify of a change of address?

The transfer agent.

We go to Florida (Arizona) every winter. How do we get our mail from Petroleum & Resources?

The transfer agent can program a seasonal address into its system; simply send the temporary address and the dates you plan to be there to the transfer agent.

I want to give shares to my children, grandchildren, etc., as a gift. How do I go about it?

Giving shares of Petroleum is simple and is handled through our transfer agent. The stock transfer rules are clear and precise for most forms of transfer. They will vary slightly depending on each transfer, so write to the transfer agent stating the exact intent of your gift plans and the transfer agent will send you the instructions and forms necessary to effect your transfer.

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### SHAREHOLDER INFORMATION AND SERVICES (CONTINUED)

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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

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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<br>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<br>safekeeping(waived if sold) | \$7.50  |
| Book to Book Transfers                                     | Included  |

To transfer shares to another participant or to a new participant

Fees are subject to change at any time.

### Minimum and Maximum Cash Investments

|   |             |
|---|-------------|
| Initial minimum investment (non-holders)          | \$500.00    |
| Minimum optional investment<br>(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 Shareholders

For shareholders whose stock is held by a broker in "street" name, the AST INVESTORS CHOICE Direct Stock Purchase and Sale Plan remains available through many registered investment security dealers. If your shares are currently held

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in a "street" name or brokerage account, please contact your broker for details about how you can participate in AST's Plan or contact AST.

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

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

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BOARD OF DIRECTORS

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| Personal Information | Position Held with the Fund | Term of Office | Length of Time Served | Principal Occupations During the Last 5 Years | Number of Portfolios in Fund Complex Overseen by Director | Other |
|----------------------|-----------------------------|----------------|-----------------------|---|---|-------|
|----------------------|-----------------------------|----------------|-----------------------|---|---|-------|

Independent Directors

|  |          |          |            |   |     |                                 |
|--|----------|----------|------------|---|-----|---------------------------------|
| Enrique R. Arzac, Ph.D.<br>7 St. Paul Street,<br>Suite 1140<br>Baltimore, MD 21202<br>Age 64 | Director | One Year | Since 1987 | Professor of Finance and Economics, formerly Vice Dean of Academic Affairs of the Graduate School of Business, Columbia University. | Two | Dir<br>Exp<br>Sui<br>Fun<br>com |
|--|----------|----------|------------|---|-----|---------------------------------|

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|  |                 |                     |                                |  |            |  |
|--|-----------------|---------------------|--------------------------------|--|------------|--|
| <p>Phyllis O. Bonanno<br/>7 St. Paul Street,<br/>Suite 1140<br/>Baltimore, MD 21202<br/>Age 62</p>                           | <p>Director</p> | <p>One<br/>Year</p> | <p>Since<br/>2003</p>          | <p>President &amp; CEO of<br/>International Trade Solutions,<br/>Inc. (consultants). Formerly<br/>President of Columbia College,<br/>Columbia, South Carolina, and<br/>Vice President of Warnaco Inc.<br/>(apparel).</p>   | <p>Two</p> | <p>Dir<br/>Exp<br/>(in<br/>War<br/>Moh<br/>(ca</p> |
| <hr/>  |                 |                     |                                |  |            |  |
| <p>Daniel E. Emerson<br/>7 St. Paul Street,<br/>Suite 1140<br/>Baltimore, MD 21202<br/>Age 81</p>                            | <p>Director</p> | <p>One<br/>Year</p> | <p>Since<br/>1987</p>          | <p>Chairman, The National<br/>YMCA Fund Inc. Retired<br/>Executive Vice President of<br/>NYNEX Corp.<br/>(communications), retired<br/>Chairman of The Board of both<br/>NYNEX Information<br/>Resources Co. and NYNEX<br/>Mobile Communications Co.<br/>Previously Executive Vice<br/>President and Director of New<br/>York Telephone Company.</p> | <p>Two</p> | <p>Dir<br/>Exp<br/>(in</p>                         |
| <hr/>  |                 |                     |                                |  |            |  |
| <p>Roger W. Gale<br/>7 St. Paul Street,<br/>Suite 1140<br/>Baltimore, MD<br/>21202<br/>Age 59</p>                            | <p>Director</p> | <p>One<br/>Year</p> | <p>Since<br/>Dec.<br/>2005</p> | <p>President &amp; CEO of GF<br/>Energy, LLC (consultants to<br/>electric power companies).<br/>Formerly member of<br/>management group, PA<br/>Consulting Group (energy<br/>consultants).</p>   | <p>Two</p> | <p>Dir<br/>Exp<br/>(in<br/>(ge<br/>ene<br/>Ass</p> |
| <hr/>  |                 |                     |                                |  |            |  |
| <p>Thomas H. Lenagh<br/>7 St. Paul Street,<br/>Suite 1140<br/>Baltimore, MD 21202<br/>Age 87</p>                             | <p>Director</p> | <p>One<br/>Year</p> | <p>Since<br/>1987</p>          | <p>Financial Advisor, Chairman of<br/>the Board, Photonics Products<br/>Inc. (crystals). Formerly<br/>Chairman of the Board and<br/>CEO of Greiner Engineering<br/>Inc. (formerly Systems<br/>Planning Corp.) (consultants),<br/>and Chief Investment Officer<br/>of the Ford Foundation<br/>(charitable foundation).</p>                            | <p>Two</p> | <p>Dir<br/>Exp<br/>Cor<br/>(3<br/>com</p>          |
| <hr/>  |                 |                     |                                |  |            |  |
| <p>Kathleen T. McGahran,<br/>Ph.D., J.D., C.P.A<br/>7 St. Paul Street,<br/>Suite 1140<br/>Baltimore, Md 21202<br/>Age 55</p> | <p>Director</p> | <p>One<br/>Year</p> | <p>Since<br/>2003</p>          | <p>Principal &amp; Director of Pelham<br/>Associates, Inc. (executive<br/>education), Adjunct Associate<br/>Professor, Columbia Executive<br/>Education, Graduate School of<br/>Business, Columbia University.<br/>Formerly Associate Dean and<br/>Director of Executive<br/>Education, and Associate<br/>Professor, Columbia<br/>University.</p>    | <p>Two</p> | <p>Dir<br/>Exp<br/>(in</p>                         |

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| Personal Information | Position Held with the Fund | Term of Office | Length of Time Served | Principal Occupations During the Last 5 Years | Number of Portfolios in Fund Complex Overseen by Director | Other Directors |
|----------------------|-----------------------------|----------------|-----------------------|---|---|-----------------|
|----------------------|-----------------------------|----------------|-----------------------|---|---|-----------------|

Independent Directors (continued)

|  |          |          |            |  |     |          |
|--|----------|----------|------------|--|-----|----------|
| John J. Roberts<br>7 St. Paul Street,<br>Suite 1140<br>Baltimore, MD 21202<br>Age 83 | Director | One Year | Since 1987 | Retired Senior Advisor, formerly Vice-Chairman External Affairs, American International Group, Inc. (insurance). Formerly Chairman and CEO of American International Underwriters Corporation. Previously President of American International Underwriters Corporation-U.S./Overseas Operations. | Two | Director |
|--|----------|----------|------------|--|-----|----------|

|   |          |          |                 |   |     |          |
|---|----------|----------|-----------------|---|-----|----------|
| Craig R. Smith, M.D.<br>7 St. Paul Street,<br>Suite 1140<br>Baltimore, MD 21202<br>Age 59 | Director | One Year | Since Dec. 2005 | President, Williston Consulting LLC (consultants to pharmaceutical and biotechnology industries). Formerly Chairman, President & CEO of Guilford Pharmaceuticals (pharmaceuticals and biotechnology). | Two | Director |
|---|----------|----------|-----------------|---|-----|----------|

|  |          |          |            |  |     |          |
|--|----------|----------|------------|--|-----|----------|
| Robert J. M. Wilson<br>7 St. Paul Street,<br>Suite 1140<br>Baltimore, MD 21202<br>Age 85 | Director | One Year | Since 1975 | Retired President of the Corporation (since 1986) and retired President of The Adams Express Company (since 1986). | Two | Director |
|--|----------|----------|------------|--|-----|----------|

Interested Director

|  |  |          |  |  |     |          |
|--|--|----------|--|--|-----|----------|
| Douglas G. Ober<br>7 St. Paul Street,<br>Suite 1140<br>Baltimore, MD 21202<br>Age 59 | Director,<br>Chairman,<br>President<br>and CEO | One Year | Director since 1989;<br>Chairman of the Board since 1991 | Chairman & CEO of the Corporation and The Adams Express Company. | Two | Director |
|--|--|----------|--|--|-----|----------|



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(a) Audit Fees. The aggregate fees billed for professional services rendered by its independent auditors, PricewaterhouseCoopers LLP, for the audits of the Corporation's annual and semi-annual financial statements for 2005 and 2004 were \$59,201 and \$47,142, respectively.

(b) Audit Related Fees. There were no audit-related fees in 2005 and 2004.

(c) Tax Fees. The aggregate fees billed to registrant for professional services rendered by PricewaterhouseCoopers LLP for the review of registrant's excise tax calculations and preparations of federal, state and excise tax returns for 2005 and 2004 were \$7,964 and \$8,524, respectively.

(d) All Other Fees. The aggregate fees billed for services to the Corporation by PricewaterhouseCoopers LLP, other than for the services referenced above for 2005 and for 2004 were \$800 and \$0, respectively. The \$800 billed for services in 2005 were in connection with the preparation and review of the registration statement filed with the Securities and Exchange Commission relating to the 2005 Equity Incentive Compensation Plan

(e) (1) Audit Committee Pre-Approval Policy. As of 2005, all services to be performed for registrant by PricewaterhouseCoopers LLP must be pre-approved by the audit committee. All services performed in 2005 were pre-approved by the committee.

(2) Not applicable.

(f) Not applicable.

(g) The aggregate fees billed by PricewaterhouseCoopers LLP for non-audit professional services rendered to registrant for 2005 and 2004 were \$7,964 and \$8,524, respectively.

(h) The registrant's audit committee has considered the provision by PricewaterhouseCoopers LLP of the non-audit services described above and found that they are compatible with maintaining PricewaterhouseCoopers LLPs independence.

Item 5. Audit Committee of Listed registrant's.

(a) The registrant has a standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the audit committee are: Kathleen T. McGahran, chair, Daniel E. Emerson, Craig R. Smith and Robert J.M. Wilson.

(B) Not applicable.

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

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.



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### PROXY VOTING POLICIES & PROCEDURES

Petroleum & Resources Corporation (Petroleum) follows long-standing general guidelines for the voting of portfolio company proxies and takes very seriously its responsibility to vote all such proxies. The portfolio company proxies are evaluated by our research staff and voted by our portfolio management team, and we annually provide the Board of Directors with a report on how proxies were voted during the previous year. We do not use an outside service to assist us in voting our proxies.

As an internally-managed investment company, Petroleum uses its own staff of research analysts and portfolio managers. In making the decision to invest in a company for the portfolio, among the factors the research team analyzes is the integrity and competency of the company's management. We must be satisfied that the companies we invest in are run by managers with integrity. Therefore, having evaluated this aspect of our portfolio companies' managements, we give significant weight to the recommendations of the company's management in voting on proxy issues.

We vote proxies on a case-by-case basis according to what we deem to be the best long-term interests of our shareholders. The key over-riding principle in any proxy vote is that stockholders be treated fairly and equitably by the portfolio company's management. In general, on the election of directors and on routine issues that we do not believe present the possibility of an adverse impact upon our investment, after reviewing whether applicable corporate governance requirements as to board and committee composition have been met, we will vote in accordance with the recommendations of the company's management. When we believe that the management's recommendation is not in the best interests of our stockholders, we will vote against that recommendation.

Our general guidelines for when we will vote contrary to the recommendation of the portfolio company management's recommendation are:

#### Stock Options

Our general guideline is to vote against stock option plans that we believe are unduly dilutive of our stock holdings in the company. We use a general guideline that we will vote against any stock option plan that results in dilution in shares outstanding exceeding 4%. Most stock option plans are established to motivate and retain key employees and to reward them for their achievement. An analysis of a stock option plan can not be made in a vacuum but must be made in the context of the company's overall compensation scheme. In voting on stock option plans, we give consideration to whether the stock option plan is broad-based in the number of employees who are eligible to receive grants under the plan. We generally vote against plans that permit re-pricing of grants or the issuance of options with exercise prices below the grant date value of the company's stock.

#### Corporate Control/ Governance Issues

Unless we conclude that the proposal is favorable to our

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interests as a long-term shareholder in the company, we have a long-standing policy of voting against proposals to create a staggered board of directors. Staggered boards are used to help create a roadblock to a possible takeover of a company or to entrench incumbent management and board. In conformance with that policy, we will generally vote in favor of shareholder proposals to eliminate the staggered election of directors.

Unless we conclude that the proposal is favorable to our interests as a long-term shareholder in the company, our general policy is to vote against amendments to a company's charter that can be characterized as anti-takeover provisions. For example, we generally vote in favor of stockholder proposals to rescind or require a stockholder vote on anti-takeover provisions such as poison pills and the like.

With respect to so-called golden parachutes and other severance packages, it is our general policy to vote against proposals relating to future employment contracts that provide that compensation will be paid to any director, officer or employee that is contingent upon a merger or acquisition of the company.

We generally vote for proposals to require that the majority of a board of directors consist of independent directors and vote against proposals to establish a retirement plan for non-employee directors.

We have found that most stockholder proposals relating to social issues focus on very narrow issues that either fall within the authority of the company's management, under the oversight of its board of directors, to manage the day-to-day operations of the company or concern matters that are more appropriate for global solutions rather than company-specific ones. We consider these proposals on a case-by-case basis but usually are persuaded managements position is reasonable and vote in accordance with managements recommendation on these types of proposals.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

(a) (1) Douglas G. Ober, Chairman, Chief Executive Officer, and President, and Joseph M. Truta, Executive Vice President, comprise the 2 person portfolio management team for the registrant. Mr. Ober and Mr. Truta have served as portfolio managers for the registrant since 1991. This information is as of February 13, 2006. Mr. Ober is the lead member of the portfolio management team. Mr. Ober and Mr. Truta receive investment recommendations from a team of research analysts and make decisions jointly about any equity transactions in the portfolio. Concurrence of both portfolio managers is required for an investment recommendation to be approved.

(2) Mr. Ober and Mr. Truta also comprise the portfolio management team for registrant's non-controlled affiliate, The Adams Express Company (Adams), a registered investment company with total

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net assets of \$1,266,728,652 as of December 31, 2005. Mr. Ober is Chairman and Chief Executive Officer of Adams and Mr. Truta is President. This information is as of February 13, 2006. The Petroleum fund is a non-diversified fund focusing on the energy and natural resources sectors and Adams is a diversified fund with a different focus, and there are few material conflicts of interest that may arise in connection with the portfolio managers' management of both funds. The funds do not buy or sell securities or other portfolio holdings to or from the other, and procedures and policies are in place covering the sharing of expenses and the allocation of investment opportunities, including bunched orders and investments in initial public offerings, between the funds.

(3) The portfolio managers are compensated through a three-component plan, consisting of salary, annual cash incentive compensation, and equity incentive compensation. The value of each component in any year is determined by the Compensation Committee, comprised solely of independent director members of the Board of Directors. Salaries are determined by using appropriate industry surveys and information about the local market as well as general inflation statistics. Cash incentive compensation is based on a combination of absolute and relative fund performance over one and three year periods as well as individual success at meeting goals and objectives set by the Board of Directors at the beginning of each year. Target incentives are set based on 80% of salary for the Chief Executive Officer and 60% of salary for the Executive Vice President. Two-thirds of each individual's annual cash incentive is based on fund performance and one third on individual success. The portion based on performance is determined using a scale in which the target can be earned by absolute fund pre-tax performance of 10%. The scale ranges from zero to 125% of target. The result is then modified by an average of the one and three year performance of the fund relative to that of the Dow Jones Oil and Gas Index (DJOGI) and the S&P 500 Index, with 70% based upon the relative performance of the fund compared to the DJOGI and 30% based on the relative performance compared to the S&P 500. Each one percent outperformance or underperformance by the fund adds or deducts 5% from the percentage of target earned based on the scale. The maximum percentage of target which may be earned is 200% and the minimum is zero. Equity incentive compensation, based on a plan approved by shareholders in 2005, can take several forms. Following approval of the plan, grants of restricted stock were made to the portfolio managers in April 2005, with vesting in equal proportions over a three year period. The size of the grants was determined by the Compensation Committee with the assistance of an outside compensation consultant. The basis for the cash incentive compensation determinations for Adams is the same as for Petroleum, except that the portion of the incentive based upon fund performance uses the S&P 500 Index as the benchmark, over a one and three year period. All of the above information is as of December 31, 2005.

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(4) Using a valuation date of December 31, 2005, Mr. Ober beneficially owns equity securities in registrant of over \$1,000,000. Mr. Truta beneficially owns equity securities in registrant of over \$1,000,000.

### Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

| Period(2) | Total<br>Number<br>of<br>Shares<br>(or<br>Units)<br>Purchased | Average<br>Price<br>Paid per<br>Share (or<br>Unit) | Total<br>Number of<br>Shares (or<br>Units)<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Number (or<br>Approximate<br>Dollar Value)<br>of Shares (or<br>Units) that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs |
|-----------|---|--|--|---|
| Jul. 2005 | 91,700  | \$ 30.95   | 91,700   | 628,246   |
| Aug. 2005 | 134,300   | \$ 31.85   | 134,300  | 493,946   |
| Sep. 2005 | 104,150   | \$ 34.40   | 104,150  | 389,796   |
| Oct. 2005 | 73,900  | \$ 32.81   | 73,900   | 315,896   |
| Nov. 2005 | 30,900  | \$ 31.78   | 30,900   | 284,996   |
| Dec. 2005 | 25,700  | \$ 33.50   | 25,700   | 1,034,677   |
| Total     | 460,650 (1)   | \$ 32.49   | 460,650 (2)  | 1,034,677 (2)   |

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

(2.a) The Plan was announced on December 9, 2004 and was reapproved on December 8, 2005.

(2.b) The share amount approved in 2004 was 5% of outstanding shares, or approximately 1,080,746 shares, and in 2005 was 5% of outstanding shares, or approximately 1,060,377 shares.

(2.c) The Plan will expire on or about December 8, 2006.

(2.d) None.

(2.e) None.

### Item 10. Submission of Matters to a Vote of Security Holders.

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

### Item 11. Controls and Procedures.

Conclusions of principal officers concerning controls and procedures.

(a) As of February 13, 2006, an evaluation was performed under the supervision and with the participation of the officers of registrant, including the principal executive officer (PEO) and principal financial officer (PFO), of the effectiveness of registrant's disclosure controls and procedures. Based on that evaluation, the registrant's

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officers, including the PEO and PFO, concluded that, as of February 13, 2006, the registrant's disclosure controls and procedures were reasonably designed so as to ensure that material information relating to the registrant is made known to the PEO and PFO.

(b) There have been no significant changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940 (17 CFR 270.30a-3(d)) that occurred during the registrant's last fiscal half-year that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 12. Exhibits attached hereto. (Attach certifications as exhibits)

(1) Not applicable. See registrant's response to Item 2, above.

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

Signatures:

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

PETROLEUM & RESOURCES CORPORATION

BY: /s/ Douglas G. Ober  
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Douglas G. Ober  
Chief Executive Officer  
(Principal Executive Officer)

Date: February 13, 2006

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

BY: /s/ Douglas G. Ober  
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Douglas G. Ober  
Chief Executive Officer  
(Principal Executive Officer)

Date: February 13, 2006

BY: /s/ Maureen A. Jones  
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Maureen A. Jones  
Vice President, Chief Financial Officer and Treasurer  
(Principal Financial Officer)

Date: February 13, 2006