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PETROLEUM & RESOURCES CORP

Form N-CSR

February 15, 2007

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, 2006

Date of reporting period: December 31, 2006

Item 1. Reports to Stockholders.

[GRAPHIC]

INVESTING IN RESOURCES FOR THE FUTURE

Petroleum  
& Resources  
Corporation

Annual Report 2006

2006 AT A GLANCE  
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THE CORPORATION

.. a closed-end equity investment company emphasizing natural resources stocks

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.. objectives:    preservation of capital  
                   reasonable income  
                   opportunity for capital gain  
 .. internally-managed  
 .. low expense ratio  
 .. low turnover

STOCK DATA (12/31/06)

NYSE Symbol..... PEO  
 Market Price ..... \$33.46  
 52-Week Range \$30.02 - \$36.81  
 Discount ..... 8.6%  
 Shares Outstanding 22,180,867

### SUMMARY FINANCIAL INFORMATION

	Year Ended December 31	
	2006	2005
Net asset value per share	\$ 36.61	\$ 35.24
Total net assets	812,047,239	761,913,652
Unrealized appreciation	462,398,019	428,811,345
Net investment income	9,844,108	11,391,783
Total realized gain	69,700,053	26,239,852
Total return (based on market value)	15.3%	32.3%
Total return (based on net asset value)	15.7%	32.0%
Expense ratio	0.60%	0.59%

### 2006 DIVIDENDS AND DISTRIBUTIONS

	Amount	
Paid	(per share)	Type
March 1, 2006	\$0.07	Long-term capital gain
March 1, 2006	0.03	Short-term capital gain
March 1, 2006	0.03	Investment income
June 1, 2006	0.13	Investment income
September 1, 2006	0.13	Investment income
December 27, 2006	2.92	Long-term capital gain
December 27, 2006	0.31	Short-term capital gain
December 27, 2006	0.18	Investment income
\$3.80		

### 2007 ANNUAL MEETING OF STOCKHOLDERS

Location: The Maryland Club, Baltimore, Maryland  
 Date: March 27, 2007  
 Time: 11:00 a.m.

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## PORTFOLIO REVIEW

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### TEN LARGEST PORTFOLIO HOLDINGS (12/31/06)

	Market Value	% of Net Assets
Exxon Mobil Corp.	\$ 95,404,350	11.8
Chevron Corp.	46,691,550	5.8
ConocoPhillips	40,068,307	4.9
Schlumberger Ltd.	35,369,600	4.4
Devon Energy Corp.	22,807,200	2.8
Valero Energy Corp.	22,254,600	2.7
BP plc ADR	22,143,000	2.7
BJ Services Co.	21,696,800	2.7
Noble Energy, Inc.	21,100,100	2.6
Weatherford International Ltd.	20,625,872	2.5
Total	\$348,161,379	42.9%

### SECTOR WEIGHTINGS (12/31/06)

[CHART]

Integrated	39.5%
Exploration & Production	14.8%
Utilities	13.7%
Services	21.5%
Basic Materials & Other	7.3%
Cash & Equivalent	3.5%

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## PETROLEUM & RESOURCES CORPORATION

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Calendar Years	Market value of original shares	Cumulative market value of capital gains distributions taken in shares	Cumulative market value of income dividends taken in shares	Total market value	Total net asset value

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1992	\$ 9,677	\$ 486	\$ 271	\$10,434	\$11,433
1993	10,540	1,080	625	12,245	13,200
1994	9,677	1,518	939	12,134	12,901
1995	10,827	2,303	1,482	14,612	16,301
1996	13,323	3,554	2,284	19,161	20,449
1997	13,990	4,572	2,824	21,386	24,296
1998	11,742	4,742	2,793	19,277	21,586
1999	12,363	6,085	3,375	21,823	26,715
2000	15,703	9,269	4,713	29,685	35,534
2001	13,490	9,165	4,466	27,121	28,784
2002	11,029	8,264	4,107	23,400	25,596
2003	13,651	11,343	5,607	30,601	31,013
2004	14,824	13,452	6,708	34,984	38,213
2005	18,596	18,506	9,177	46,279	50,428
2006	19,240	23,961	10,135	53,336	58,356

### 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 1992-2006. 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.

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### LETTER TO SHAREHOLDERS

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2006 saw the fifth consecutive year of the cyclical upturn of oil and natural gas prices and strong share price performance in the energy sector. While the performance of commodity prices and energy equities in general has been outstanding during the period, disparities began to show up during the year, as might be expected in the latter part of a cycle. The total return on net assets of Petroleum & Resources Corporation in 2006, after reinvestment of dividends and capital gain distributions, was 15.7% and the return on market value was 15.3%. The Dow Jones Oil & Gas Index (DJOGI) rose 21% during the year, while the broader S&P 500 Index returned 15.8%. The Fund's diversification within the energy industry and its non-energy investments are the main reasons its performance lagged that of the DJOGI while approximating the S&P 500. In this annual report, we will summarize market events and our performance for the year. We will also discuss how we see energy markets unfolding in 2007 and factors which may affect them.

#### A REVIEW OF 2006

What seemed to be a likely crisis for petroleum markets in the aftermath of Hurricanes Katrina and Rita did not materialize in 2006 as generally mild temperatures helped to keep oil prices from reaching even higher levels during the 2005-2006 heating season. The reduced demand domestically served to calm the markets early in the

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year. Though a great deal transpired in the intervening months, the end of 2006 was marked by mild temperatures again, resulting in the spot price of West Texas Intermediate crude oil (WTI) closing the year at \$61.05, just 1 cent higher than it began the year.

During the year, commodity prices were marked by great volatility, with WTI ranging from a high of \$77 in July to a low of \$56 in November. Strong worldwide demand coupled with actual or perceived capacity shortages and geopolitical unrest pushed prices higher in the first half of the year. Renewed attacks in Iraq, Iran's nuclear ambitions, terrorist attacks in Nigeria, and the brief war between Israel and Hezbollah in Lebanon all served to heighten anxiety among oil traders. Expectations of another damaging hurricane season and the slow recovery of operations subsequent to the 2005 hurricane season led market participants to buy additional contracts early in the year, pushing the price up. As the hurricane season wound down and little damage was incurred, traders liquidated their positions and a massive sell-off took place, concluding in November.

In fact, the growth in worldwide demand for oil declined modestly in 2006, from the 1.5% rate of the past to a 1.1% rate as higher prices began to affect the world's economies. China still accounted for 41% of the increase, followed by India at 6%, according to the International Energy Agency. Worldwide production grew by roughly 1.2%, resulting in the tight supply/demand balance in existence much of the year. OPEC maintained its production quota of 28 million barrels per day (excluding Iraq). Toward the end of the year, demand began to reflect the higher prices and inventories started building around the world. OPEC responded by announcing the first production cut, of 1.2 million barrels per day, since April 2004. With prices drifting to the low end of its desired range, OPEC announced another, smaller cut in production to take effect in February 2007. Further strengthening its influence on oil prices was the announcement that Angola, a 2 million barrel per day producer, would join OPEC in January of 2007.

The domestic market for gasoline was also quite volatile during the year as refining bottlenecks were experienced and supplies fell short at critical times. The aftereffects of the hurricanes of 2005 were partly responsible as refinery restarts were slow in coming and functioning refineries had to be taken down for maintenance after operating at high utilization levels for extended periods. In addition, MTBE was effectively banned as an additive, resulting in the need to reformulate some products. Downstream (product) margins were strong the first half of the year as a result. During the summer driving season, with robust demand, the average retail price of regular gasoline exceeded \$3 per gallon for four consecutive weeks.

The high oil prices realized during 2006 funded heavy exploration for conventional oil and also provided an opportunity for non-conventional hydrocarbons to come into the market. The demand for oil rigs, equipment, and services drove up prices for those items considerably; oil service stocks rose as well. The higher prices of services and equipment were also reflected in the cost to find and produce new reserves. Development of oil sands, mostly in Canada, continued at high levels and biofuels attracted interest, driven by both federal mandates and profitability. In the U. S., corn-based ethanol refineries sprang up throughout the Midwest and built market share in the gasoline

[PHOTO]

Douglas G. Ober,  
Chairman, President and Chief  
Executive Officer

LETTER TO SHAREHOLDERS (continued)  
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sector. Thus far, all of the non-conventional fuels are more costly to produce than oil and gas and rely on subsidies, but they have helped sustain the higher price of the traditional fuels.

The volatility of natural gas prices in 2006 was even greater than that of oil, largely due to the extremes of weather experienced. These are generally temporary in nature, but highly unpredictable, as evidenced by the hurricanes in 2005 and the lack thereof in 2006. There has also been a fundamental change in the demand for natural gas, in the form of demand destruction due to efficiencies and industrial demand lost to lower-cost producers. Low gas usage in the warm winter of 2005-2006 was partially offset by power generation needs during the hot summer months. The lack of supply interruptions and record natural gas drilling and well completions resulted in a high level of supply. Strong cash flows and good drilling opportunities enabled producing companies to maintain active drilling programs. The result has been a significant increase in the level of domestic natural gas storage and depressed natural gas prices. Prices for the front month contract started the year at \$11.225 per million BTU, the peak for the year, and closed the year at \$6.299 per million BTU. At the same time, production and reserve growth objectives forced exploration and production (E&P) companies to compete for equipment and services. Costs rose, commodity prices declined, and margins were squeezed.

Prices for our other principal source of energy, coal, were also volatile during 2006. After several years of strong price increases and rising utilization rates at coal-fired power plants, the coal industry responded with higher levels of production early in 2006. A mild end to the winter and ample supplies of natural gas resulted in a build-up in inventories through the year and weaker prices toward the end of the year.

## ENERGY SECTOR PERFORMANCE

Energy stocks performed very well during most of 2006, as the price of oil rose steadily through July and remained in the \$60-\$65 range for the bulk of the rest of the year. By the end of November, the Dow Jones Oil & Gas Index (DJOGI) had risen 23.8%. It was only in the final weeks of 2006 that commodity prices dropped precipitously and the energy stocks followed them down. For the year as a whole, the DJOGI rose 21%. The DJOGI is weighted by market capitalization, resulting in great emphasis on large, integrated energy companies such as Exxon Mobil, Chevron, and ConocoPhillips. Those three companies comprise over 50% of the DJOGI. With high oil prices, strong margins in refining and marketing, and capital discipline, the major integrated companies generated large amounts of cash in the first half of 2006 and used it for exploration, expanded production, dividend increases, and large share repurchases. As the year progressed, industry dynamics changed, especially for companies focused on natural gas. Drilling and well completion success combined with the absence of major hurricanes resulted in a build-up of inventory, which in turn dimmed the prospects of smaller exploration and production companies. The stocks of many of these companies fell by more than 10% in the final weeks of the year. The "majors," with their more diversified operations, held up considerably better, with returns of 21% (ConocoPhillips) to 35% (Exxon Mobil). While the Fund has large positions in the "majors" (23.2% in the three mentioned above), its diversification, which is done primarily to reduce risk and is normally beneficial for the Fund's performance, worked against it. In addition, holdings in chemicals, materials, and utilities did not perform as well as the large energy companies.

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### INVESTMENT RESULTS

Net assets of the Corporation on December 31, 2006 were \$812,047,239 or \$36.61 per share on 22,180,867 shares outstanding. This compares with \$761,913,652 or \$35.24 per share on 21,621,072 shares outstanding a year earlier.

Net investment income for 2006 was \$9,844,108 compared to \$11,391,783 for 2005. These earnings are equivalent to \$0.47 and \$0.53 per share, respectively, on the average number of shares outstanding throughout each year. Our 0.60% expense ratio (expenses to average net assets) was once again at a low level compared to the industry.

Net realized gains amounted to \$69,700,053 during the year, while the unrealized appreciation on investments increased from \$428,811,345 at December 31, 2005 to \$462,398,019 at year end.

### DIVIDENDS AND DISTRIBUTIONS

Total dividends and distributions paid in 2006 were \$3.80 per share compared to \$1.78 in 2005. The table on page 22 shows the history of our dividends and distributions over the past fifteen years, including the annual rate of distribution as a percentage of the average daily market price of the Corporation's Common Stock. In 2006, the annual rate of distribution was 11.26% compared to 5.90% in 2005. As announced on November 9, 2006, a year-end distribution consisting of investment income of \$0.18 and capital gains of \$3.23 was made on December 27, 2006, both realized and taxable in 2006. On January 11, 2007, an additional distribution of \$0.13 per share was declared to shareholders of record February 15, 2007, payable March 1, 2007, representing undistributed net investment income and capital gains earned in 2006, taxable to shareholders in 2007.

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### LETTER TO SHAREHOLDERS (continued)

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### OUTLOOK FOR 2007

The price of oil has fallen 14% in the first several weeks of 2007 in response to the growing inventories of crude and refined products. OPEC has cut production once and has announced a second, albeit smaller, cut to take effect in February. These actions have had no impact on the price of the commodity. Demand for gasoline and other refined products is not growing at its historic rate as world economies are experiencing slower growth. Worldwide supply and demand are not likely to come back into balance in the near future without more production cuts by OPEC members. The increased levels of exploration activity in recent years will result in higher non-OPEC production in 2007 and 2008. Still, there is very little excess productive capacity in the world today and that is why prices remain relatively high. Any significant disruption in the oil fields, due to natural forces, terrorism, or other geopolitical activity, would drive prices back up to their recent highs and perhaps beyond in short order. It is for this reason that prices are not considerably lower today.

Our view of the world economy in 2007 is that it is likely to experience slower growth, on the order of 3.5%, down from about 4% in 2006. The U. S. economy, the largest user of oil, is expected to grow only 2-2 1/2% this year as the effects of higher commodity prices (including energy, industrial, and agricultural) and short-term interest rates are felt. While an inverted yield curve (higher short-term than long-term rates), such as that experienced in the last 18 months, has historically presaged recession in this country, we do not

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expect that to occur. Corporate balance sheets are generally in good condition, with many companies carrying large amounts of cash. The weakness in the housing and auto industries does not appear to be spilling over into the rest of the economy. Of course, further rate hikes by the Federal Reserve to fight perceived inflation risks could drive the economy into recession, as could spikes in commodity prices. Barring these, we are comfortable that the economy will continue to grow, although at a reduced pace from 2006 and previously. Many of the other economies of the world are in similar situations to the U.S. Central banks have raised rates to slow growth and all economies are being hit by higher commodity prices.

Given this economic outlook, we expect that the price of oil will gradually decline as non-OPEC oil production picks up, a worldwide emphasis on alternative fuels begins to have an effect on demand, and OPEC is shown to have only partial success in controlling supply. Most industry participants have benefited greatly from the increasing prices of the past several years, but the opportunities to put the cash generated to work in the oilfields have been limited. A number of countries have moved to take control of their energy resources (Russia, Venezuela, Bolivia), while others have tried to lock up foreign supplies through their national oil companies (China, India). This has further limited the opportunities available to the industry. Therefore, we are not looking for oil stocks to outperform the rest of the equity market again in 2007. Earnings comparisons are likely to be unfavorable as the cycle passes its peak. Valuations, on the other hand, may be driven up as a result of continued consolidation activity. With large amounts of cash on hand, companies may be tempted to purchase reserves rather than drill for them. We do expect continued heavy exploration activity, though, to bring new oil reserves on stream several years from now. This will benefit the offshore drilling and oil service companies, whose stocks should perform relatively well.

The natural gas market is also likely to be a difficult one in 2007 unless the large inventories are worked off in an extended period of cold weather. Without such a weather change, prices are expected to decline through the spring and into the summer cooling season. Any firming of prices is unlikely to occur before the second half of the year. This would be precipitated by lower production as drilling activity slows in response to the lower prices of the spring and summer. Companies predominantly involved in natural gas production are not expected to perform well in the short term, nor are drilling and service companies in that sector.

While our outlook for 2007 at this point is rather pessimistic, the longer term outlook remains solid. Worldwide supplies of oil and natural gas are not growing much and the substitution of alternatives is minimal to date. The economic slowdown discussed above will temporarily slow the growth in demand, but we expect economic growth to pick up in 2008 and beyond, stimulating the demand for energy.

In anticipation of the short-term weakness, we have sold or reduced positions in a number of gas-oriented companies and increased our holdings of integrated producers. These companies are in the best position to act as consolidators in the industry and gain market share, which will benefit them when the cycle turns up again.

### SPECIAL SHAREHOLDER MEETING

We were gratified with the strong support shown by our shareholders at the special meeting held on November 7, 2006. All eight of the proposals of the Board of Directors were overwhelmingly approved, with no proposal



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## LETTER TO SHAREHOLDERS (continued)

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receiving less than 83% of the votes cast. A full report of the meeting can be found on page 24. The approval of these important changes to the corporate charter provides the Corporation with additional tools to protect the interests of our long-term shareholders. You have clearly expressed your interest in seeing the Corporation continue as a closed-end fund, and your action has strengthened our ability to do so.

### SHARE REPURCHASE PROGRAM

On December 14, 2006, 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 2007 through January 25, 2007, 51,425 shares have been repurchased at a total cost of \$1,627,011 and a weighted average discount from net asset value of 9.2%.

The proxy statement for the Annual Meeting of Stockholders to be held in Baltimore on March 27, 2007, is expected to be mailed on or about February 16, 2007.

By order of the Board of Directors,

/s/ Douglas G. Ober  
Douglas G. Ober,

Chairman, President and  
Chief Executive Officer

January 26, 2007

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## STATEMENT OF ASSETS AND LIABILITIES

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December 31, 2006

### Assets

#### Investments\* at value:

Common stocks and convertible securities (cost \$323,839,225)	\$786,044,585	
Short-term investments (cost \$28,392,769)	28,392,769	
Securities lending collateral (cost \$43,181,867)	43,181,867	\$857,619

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#### Cash

357

#### Receivables:

Investment securities sold		7
Dividends		716

#### Prepaid expenses and other assets

538

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Total Assets	859,238
-----	
Liabilities	
Open written option contracts at value (proceeds \$328,534)	135
Obligations to return securities lending collateral	43,181
Accrued pension liabilities	1,617
Accrued expenses and other liabilities	2,255
-----	
Total Liabilities	47,191
-----	
Net Assets	\$812,047
-----	
Net Assets	
Common Stock at par value \$0.001 per share, authorized 50,000,000 shares; issued and outstanding 22,180,867 shares (includes 16,109 restricted shares, 4,000 restricted stock units and 1,289 deferred stock units) (Note 6)	\$ 22
Additional capital surplus	349,473
Accumulated other comprehensive income (Note 5)	(1,966)
Undistributed net realized gain on investments	2,120
Unrealized appreciation on investments	462,398
-----	
Net Assets Applicable to Common Stock	\$812,047
-----	
Net Asset Value Per Share of Common Stock	\$3
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\* See schedule of investments on pages 16 through 18.

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

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Investment Income	
Income:	
Dividends	\$ 12,904,753
Interest and other income	1,773,465
-----	
Total income	14,678,218
-----	
Expenses:	
Investment research	1,921,295
Administration and operations	1,148,880
Directors' fees	390,861
Reports and stockholder communications	559,595
Transfer agent, registrar and custodian expenses	149,016
Auditing and accounting services	94,231
Legal services	120,041
Occupancy and other office expenses	228,719
Travel, telephone and postage	90,432
Other	131,040
-----	
Total expenses	4,834,110
-----	
Net Investment Income	9,844,108
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Realized Gain and Change in Unrealized Appreciation on Investments	
Net realized gain on security transactions	69,700,053
Change in unrealized appreciation on investments	33,586,674
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Net Gain on Investments	103,286,727
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Change in Net Assets Resulting from Operations	\$113,130,835
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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, 2006	Dec. 31, 2005
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From Operations:		
Net investment income	\$ 9,844,108	\$ 11,391,783
Net realized gain on investments	69,700,053	26,239,852
Change in unrealized appreciation on investments	33,586,674	153,388,454
Adjustment to apply FASB Statement No. 158 (note 5)	(1,966,975)	--
<hr style="border-top: 1px dashed black;"/>		
Change in net assets resulting from operations	111,163,860	191,020,089
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Distributions to Stockholders From:		
Net investment income	(9,928,393)	(12,030,248)
Net realized gain from investment transactions	(69,654,826)	(25,924,473)
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Decrease in net assets from distributions	(79,583,219)	(37,954,721)
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From Capital Share Transactions:		
Value of shares issued in payment of distributions	46,212,047	14,748,314
Cost of shares purchased (note 4)	(28,033,719)	(24,891,727)
Deferred compensation (notes 4, 6)	374,618	104,296
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Change in net assets from capital share transactions	18,552,946	(10,039,117)
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Total Increase in Net Assets	50,133,587	143,026,251
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Net Assets:		
Beginning of year	761,913,652	618,887,401
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End of year (including undistributed net investment income of \$0 and \$106,632, respectively)	\$812,047,239	\$761,913,652
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The accompanying notes are an integral part of the financial statements.

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

Security 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, 2006 was \$395,384,038, and net unrealized appreciation aggregated \$462,235,183, of which the related gross unrealized appreciation and depreciation were \$466,819,816 and \$4,584,633, respectively. As of December 31, 2006, the tax basis of distributable earnings was \$1,378,831 of undistributed ordinary income and \$1,527,213 of undistributed long-term capital gain.

Distributions paid by the Corporation during the year ended December 31, 2006 were classified as ordinary income of \$17,053,276 and capital gain of \$62,529,943. In comparison, 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. 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, 2006 were \$77,623,403 and \$122,309,761, respectively. Options may be written (sold) or purchased by the

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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, 2006 can be found on page 19.

Transactions in written covered call and collateralized put options during the year ended December 31, 2006 were as follows:

	Covered Calls		Collateralized Puts	
	Contracts	Premiums	Contracts	Premiums
Options outstanding, December 31, 2005	1,940	\$ 292,777	1,050	\$ 129,891
Options written	6,924	1,123,802	6,870	816,798
Options terminated in closing purchase transactions	(1,250)	(382,428)	(1,440)	(177,306)
Options expired	(5,091)	(571,739)	(4,980)	(585,936)
Options exercised	(1,398)	(219,828)	(750)	(97,497)
Options outstanding, December 31, 2006	1,125	\$ 242,584	750	\$ 85,950

#### 4. CAPITAL STOCK

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

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.

On December 27, 2006, the Corporation issued 1,369,675 shares of its Common Stock at a price of \$33.73 per share (the average market price on December 11, 2006) to stockholders of record November 21, 2006 who elected to take stock in payment of the distribution from 2006 capital gain and investment income. In addition, 376 shares were issued at a weighted average price of \$33.76 per share as dividend equivalents to holders of deferred stock units and restricted stock units under the 2005 Equity Incentive Compensation Plan.

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

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#### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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Transactions in Common Stock for 2006 and 2005 were as follows:

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	Shares		Amount	
	2006	2005	2006	2005
Shares issued in payment of distributions	1,370,051	438,416	\$ 46,212,047	\$ 14,748,314
Shares purchased (at an average discount from net asset value of 10.1% and 8.0%, respectively)	(827,959)	(806,050)	(28,033,719)	(24,891,727)
Net activity under the 2005 Equity Incentive Compensation Plan	17,703	9,030	374,618	104,296
Net change	559,795	(358,604)	\$ 18,552,946	\$ (10,039,117)

5. RETIREMENT PLANS

The Corporation applied the provisions of Financial Accounting Standards Board ("FASB") Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, at December 31, 2006. This accounting standard requires recognition of the overfunded or underfunded status of a defined benefit plan in the Statement of Assets and Liabilities, and recognition of changes in the funded status in the years in which the changes occur through the capital accounts. The transition rules for implementing the standard require applying the provisions as of the end of the year of initial implementation with no retrospective application. The incremental effects on the line items in the Statement of Assets and Liabilities at December 31, 2006, are as follows:

	Before Application of Statement 158		After Application of Statement 158	
		Adjustments		
Prepaid pension cost	\$ 1,000,083	\$ (1,000,083)	\$	--
Total Assets	\$860,238,372	\$ (1,000,083)	\$859,238,289	
Accrued pension liabilities	\$ 650,703	\$ 966,892	\$ 1,617,595	
Total Liabilities	\$ 46,224,158	\$ 966,892	\$ 47,191,050	
Accumulated other comprehensive income	\$	--	\$ (1,966,975)	\$ (1,966,975)
Net Assets Applicable to Common Stock	\$814,014,214	\$ (1,966,975)	\$812,047,239	

The Corporation provides retirement benefits for its employees under a non-contributory qualified defined benefit pension plan and a non-contributory

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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.

	2006	2005
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 4,947,252	\$4,519,368
Service cost	334,876	185,168
Interest cost	327,991	281,088
Actuarial loss	745,184	66,553
Benefits paid	(64,461)	(104,925)
<hr style="border-top: 1px dashed black;"/>		
Benefit obligation at end of year	\$ 6,290,842	\$4,947,252
<hr style="border-top: 1px dashed black;"/>		
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 3,963,078	\$3,505,688
Actual return on plan assets	343,422	106,795
Employer contribution	431,208	455,520
Benefits paid	(64,461)	(104,925)
<hr style="border-top: 1px dashed black;"/>		
Fair value of plan assets at end of year	\$ 4,673,247	\$3,963,078
<hr style="border-top: 1px dashed black;"/>		
Funded status	\$ (1,617,595)	\$ (984,174)
<hr style="border-top: 1px dashed black;"/>		
Unrecognized prior service cost	\$ --	\$ 152,389
Unrecognized net loss	--	1,361,416
<hr style="border-top: 1px dashed black;"/>		
Net amount recognized	\$ --	\$ 529,631
<hr style="border-top: 1px dashed black;"/>		

Items not yet recognized as a component of net periodic pension cost:

	2006	2005
Prior service cost	\$ 114,672	\$ --
Net (gain)/loss	1,852,303	--
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Total recognized as a charge to net assets	\$ 1,966,975	\$ --
<hr style="border-top: 1px dashed black;"/>		

The accumulated benefit obligation for all defined benefit pension plans was \$4,722,250 and \$3,491,069 at December 31, 2006 and 2005, respectively.

	2006	2005
Components of net periodic pension cost		
Service cost	\$ 334,876	\$ 185,168
Interest cost	327,991	281,088
Actual return on plan assets	(343,422)	(106,795)
Amortization of prior service cost	37,717	54,913

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Amortization of net loss	225,362	180,246
Deferred asset gain	31,224	(173,395)
Net periodic pension cost	\$ 613,748	\$ 421,225

In 2007, the Corporation estimates that \$213,000 of prior service cost and \$37,000 of net losses, for a total of \$250,000, will be amortized from accumulated other comprehensive income into net periodic pension cost.

Assumptions used to determine benefit obligations and costs are:

	2006	2005
	-----	-----
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%

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### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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, 2006 and 2005, by asset category, are as follows:

	2006	2005
	-----	-----
Asset Category		
Equity Securities & Equity Mutual Funds	66%	70%
Fixed Income Mutual Funds	28%	29%
Cash	6%	1%

Equity securities include common stock of The Adams Express Company, the Corporation's non-controlled affiliate, in the amount of \$236,906 (5% of total plan assets) and \$203,280 (5% of total plan assets) at December 31, 2006 and 2005, 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 Depositary Receipts, foreign



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securities, mutual funds, convertible securities, municipal bonds, corporate bonds, U.S. government securities and U.S. government agency securities.

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 2007.

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

Pension Benefits	
-----	
2007	\$ 150,813
2008	314,533
2009	312,503
2010	356,651
2011	350,819
Years 2012-2016	1,896,243

The Corporation also sponsors a defined contribution plan that covers substantially all employees. The Corporation expensed contributions to this plan of \$97,787 and \$85,570 for the years ended December 31, 2006 and December 31, 2005, respectively. The Corporation does not provide postretirement medical benefits.

### 6. EQUITY-BASED COMPENSATION

The Stock Option Plan adopted in 1985 ("1985 Plan") has been discontinued and no further grants will be made under this Plan although unexercised awards granted in 2004 and prior years remain outstanding. The 1985 Plan permitted 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.

A summary of option activity under the 1985 Plan as of December 31, 2006, and changes during the period then ended is presented below:

	Options	Weighted- Average Exercise Price	Weighted- Average Remaining Life (Years)
	-----	-----	-----
Outstanding at December 31, 2005	103,997	\$18.24	5.07
Exercised	(15,609)	12.62	

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Cancelled	(4,474)	20.34	
-----			
Outstanding at December 31, 2006	83,914	\$16.19	4.46
-----			
Exercisable at December 31, 2006	33,877	\$16.52	4.18
-----			

The options outstanding as of December 31, 2006 are set forth below:

Exercise price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
-----	-----	-----	-----
\$9.00-\$11.99	3,975	\$ 9.71	2.00
\$12.00-\$14.99	29,615	13.06	3.46
\$15.00-\$17.99	18,583	16.22	5.00
\$18.00-\$21.99	31,741	19.00	5.40
-----			
Outstanding at December 31, 2006	83,914	\$16.19	4.46
-----			

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, 2006 was \$368,450.

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### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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The 2005 Equity Incentive Compensation Plan ("2005 Plan"), adopted at the 2005 Annual Meeting, permits the grant of stock options, restricted stock awards and other stock incentives to key employees and all non-employee directors. The 2005 Plan provides for the issuance of up to 872,639 shares of the Corporation's Common Stock, including both performance and nonperformance-based restricted stock. Performance-based restricted stock awards vest at the end of a specified three year period, with the ultimate number of shares earned contingent on achieving certain performance targets. If performance targets are not achieved, all or a portion of the performance-based restricted shares are forfeited and become available for future grants. Nonperformance-based restricted stock awards vest ratably over a three year period and nonperformance-based restricted stock units (granted to non-employee directors) vest over a one year period. It is the current intention that employee grants will be performance-based. The 2005 Plan provides for accelerated vesting in the event of death or retirement. Non-employee directors also may elect to defer a portion of their cash compensation, with such deferred amount to be paid by delivery of deferred stock units. Outstanding awards were granted at fair market value on grant date. The number of shares of Common Stock which remain available for future grants under the 2005 Plan at December 31, 2006 is 845,044 shares.

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The Corporation pays dividends and dividend equivalent on outstanding awards, which are charged to net assets when paid. Dividends and dividend equivalents paid on restricted awards that are later forfeited are reclassified to compensation expense.

A summary of the status of the Corporations's awards granted under the 2005 Plan as of December 31, 2006, and changes during the period then ended is presented below:

Awards	Shares/ Units	Weighted Average Grant-Date Fair Value
Balance at December 31, 2005	8,630	\$28.35
Granted:		
Restricted stock	13,025	34.32
Restricted stock units	4,000	33.21
Deferred stock units	1,289	33.54
Vested	(5,546)	28.51
Balance at December 31, 2006 (includes 13,025 performance-based awards and 8,373 nonperformance-based awards)	21,398	\$33.16

Compensation costs resulting from awards granted under the 2005 Plan are based on the fair value of the award on grant date (determined by the average of the high and low price on grant date) and recognized on a straight-line basis over the requisite service period. For those awards with performance conditions, compensation costs are based on the most probable outcome and, if such goals are not met, compensation cost is not recognized and any previously recognized compensation cost is reversed. The total compensation costs for restricted stock granted to employees for the year ended December 31, 2006 were \$194,555. The total compensation costs for restricted stock units granted to non-employee directors for the year ended December 31, 2006 were \$157,778. As of December 31, 2006, there were total unrecognized compensation costs of \$387,049, a component of additional capital surplus, related to nonvested equity-based compensation arrangements granted under the 2005 Plan. Those costs are expected to be recognized over a weighted average period of 1.76 years. The total fair value of shares vested during the years ended December 31, 2006 and 2005 was \$196,956 and \$12,500.

### 7. EXPENSES

The aggregate remuneration paid during the year ended December 31, 2006 to officers and directors amounted to \$2,208,421, of which \$376,911 was paid as fees to directors who were not officers. These amounts represent the taxable income to the Corporation's officers and directors and therefore differ from the amounts reported in the accompanying Statement of Operations that are recorded and expensed in accordance with generally accepted accounting principles.

### 8. PORTFOLIO SECURITIES LOANED

The Corporation makes loans of securities to brokers, secured by cash, U.S. Government securities, or bank letters of credit. The Corporation accounts for securities lending transactions as secured financing and receives compensation

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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, 2006, the Corporation had securities on loan of \$42,198,831, and held collateral of \$43,181,867, 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.

### 9. NEW ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB released FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained

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### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required to be implemented no later than the Corporation's June 29, 2007 net asset value. The application of FIN 48 is not expected to materially impact the Corporation's financial statements.

In September 2006, the FASB released Statement of Financial Accounting Standard No. 157, Fair Value Measurement ("FAS 157"), which provides enhanced guidance for using fair value to measure assets and liabilities. The standard requires companies to provide expanded information about the assets and liabilities measured at fair value and the potential effect of these fair valuations on an entity's financial performance. The standard does not expand the use of fair value in any new circumstances, but provides clarification on acceptable fair valuation methods and applications. Adoption of FAS 157 is required for fiscal years beginning after November 15, 2007. Application of the standard is not expected to materially impact the Corporation's financial statements.

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### FINANCIAL HIGHLIGHTS

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	Year Ended December 31			
	2006	2005	2004	2003
Per Share Operating Performance				
Net asset value, beginning of year	\$35.24	\$28.16	\$24.06	\$20.98

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Net investment income	0.47	0.53*	0.41	0.38	
Net realized gains and increase (decrease) in unrealized appreciation	4.91	8.29	5.05	3.89	(3)
Adjustment to apply FASB Statement No. 158 (note 5)	(0.09)	--	--	--	
<hr/>					
Total from investment operations	5.29	8.82	5.46	4.27	(2)
<hr/>					
Less distributions					
Dividends from net investment income	(0.47)	(0.56)	(0.44)	(0.38)	(0)
Distributions from net realized gains	(3.33)	(1.22)	(0.88)	(0.81)	(0)
<hr/>					
Total distributions	(3.80)	(1.78)	(1.32)	(1.19)	(1)
<hr/>					
Capital share repurchases	0.15	0.10	0.01	0.02	
Reinvestment of distributions	(0.27)	(0.06)	(0.05)	(0.02)	(0)
<hr/>					
Total capital share transactions	(0.12)	0.04	(0.04)	0.00	(0)
<hr/>					
Net asset value, end of year	\$36.61	\$35.24	\$28.16	\$24.06	\$2
<hr/>					
Per share market price, end of year	\$33.46	\$32.34	\$25.78	\$23.74	\$1
<hr/>					
Total Investment Return					
Based on market price	15.3%	32.3%	14.4%	30.8%	(13)
Based on net asset value	15.7%	32.0%	23.3%	21.2%	(11)
<hr/>					
Ratios/Supplemental Data					
Net assets, end of year (in 000's)	\$812,047	\$761,914	\$618,887	\$522,941	\$451
Ratio of expenses to average net assets	0.60%	0.59%	0.56%	0.74%	0
Ratio of net investment income to average net assets	1.22%	1.61%	1.58%	1.75%	1
Portfolio turnover	9.95%	10.15%	13.44%	10.20%	9
Number of shares outstanding at end of year (in 000's)	22,181	21,621	21,980	21,737	21

\* 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, 2006

	Shares	Value (A)
<hr/>		
Stocks and Convertible Securities -- 96.8%		
Energy -- 89.5%		
Integrated -- 39.5%		
BP plc ADR.....	330,000	\$ 22,143,000
Chevron Corp.....	635,000	46,691,550

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ConocoPhillips.....	556,891	40,068,307
Exxon Mobil Corp.....	1,245,000	95,404,350
Hess Corp. (B).....	195,000	9,666,150
Holly Corp.....	370,000	19,018,000
Marathon Oil Co.....	120,000	11,100,000
Murphy Oil Corp.....	216,500	11,009,025
Royal Dutch Shell plc ADR.....	275,000	19,467,250
Suncor Energy.....	100,000	7,891,000
Total S.A. ADR.....	220,000	15,822,400
Valero Energy Corp.....	435,000	22,254,600
		-----
		320,535,632
		-----
Exploration & Production -- 14.8%		
Apache Corp.....	158,200	10,521,882
Devon Energy Corp.....	340,000	22,807,200
EOG Resources, Inc.....	320,000	19,984,000
Newfield Exploration Co. (B) (C).....	175,000	8,041,250
Noble Energy, Inc. (B).....	430,000	21,100,100
Occidental Petroleum Corp.....	400,000	19,532,000
XTO Energy Inc.....	390,000	18,349,500
		-----
		120,335,932
		-----
Utilities -- 13.7%		
AGL Resources Inc.....	170,000	6,614,700
Duke Energy Corp.....	217,624	7,227,293
Energen Corp.....	400,000	18,776,000
Equitable Resources, Inc. (B).....	450,000	18,787,500
MDU Resources Group, Inc.....	375,000	9,615,000
National Fuel Gas Co. (B).....	200,000	7,708,000
New Jersey Resources Corp.....	200,000	9,716,000
Questar Corp.....	200,000	16,610,000
SEMCO Energy, Inc. (C).....	670,300	4,088,830
Williams Companies, Inc.....	450,000	11,754,000
		-----
		110,897,323
		-----

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SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2006

	Shares	Value (A)
Services -- 21.5%		
Baker Hughes Inc.....	205,000	\$ 15,305,300
BJ Services Co.....	740,000	21,696,800
Bronco Drilling Co., Inc. (C).....	4,600	79,074
ENSCO International, Inc. (B).....	209,150	10,470,049
GlobalSantaFe Corp. (B).....	290,000	17,046,200
Grant Prideco Inc. (C).....	308,000	12,249,160

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Hercules Offshore, Inc. (C).....	160,000	4,624,000
Nabors Industries Ltd. (C).....	520,000	15,485,600
Noble Corp.....	200,000	15,230,000
Schlumberger Ltd.....	560,000	35,369,600
TODCO (C).....	200,000	6,834,000
Weatherford International Ltd. (C)....	493,560	20,625,872
		-----
		175,015,655
		-----
Basic Industries -- 7.3%		
Basic Materials & Other -- 7.3%		
Air Products and Chemicals, Inc.....	125,000	8,785,000
Aqua America, Inc. (B).....	352,000	8,018,560
duPont (E.I.) de Nemours and Co.....	157,500	7,671,825
Florida Rock Industries Inc. (B).....	105,000	4,520,250
General Electric Co.....	454,800	16,923,108
Martin Marietta Materials, Inc.....	30,000	3,117,300
Rohm & Haas Co.....	200,000	10,224,000
		-----
		59,260,043
		-----
Total Stocks and Convertible Securities		
(Cost \$323,839,225) (D).....		\$786,044,585
		-----

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SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2006

	Prin. Amt.	Value (A)
-----		
Short-Term Investments -- 3.5%		
U.S. Government Obligations -- 0.5%		
U.S. Treasury Bills, 4.93%, due 2/15/07.....	\$4,000,000	\$ 3,975,350
		-----
Time Deposit -- 0.0%		
Bank of America Corp., 4.55%, due 1/2/07.....		259,497
		-----
Commercial Paper -- 3.0%		
Cargill Global Funding, 5.25%, due 1/16/07.....	4,800,000	4,789,500
Chevron Funding Co., 5.20-5.24%, due 1/4/07-1/11/07.....	7,000,000	6,992,674
Coca-Cola Enterprises, 5.26%, due 1/23/07.....	2,000,000	1,993,571
General Electric Capital Corp., 5.24%, due 1/9/07.....	6,000,000	5,993,013
Nestle Capital Co., 5.22%, due 1/18/07.....	4,400,000	4,389,164
		-----
		24,157,922
		-----
Total Short-Term Investments		
(Cost \$28,392,769).....		28,392,769

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Total Securities Lending Collateral -- 5.3%	
(Cost \$43,181,867).....	
Brown Brothers Investment Trust, 5.26%, due 1/2/07.....	43,181,867
<hr/>	
Total Investments -- 105.6%	
(Cost \$395,413,861).....	857,619,221
Cash, receivables, prepaid expenses and other assets, less	
liabilities -- (5.6)%.....	(45,571,982)
<hr/>	
Net Assets -- 100%.....	\$812,047,239

Notes:

- (A) See note 1 to financial statements. Securities are listed on the New York Stock Exchange, the American Stock Exchange, or the NASDAQ, except restricted securities.
- (B) All or a portion of these securities are on loan. See Note 8 to Financial Statements.
- (C) Presently non-dividend paying.
- (D) The aggregate market value of stocks held in escrow at December 31, 2006 covering open call option contracts written was \$9,251,575. In addition, the required aggregate market value of securities segregated by the custodian to collateralize open put option contracts written was \$3,600,000.

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SCHEDULE OF OUTSTANDING OPTION CONTRACTS

December 31, 2006

Contracts (100 shares each)	Security	Contract Strike Price	Contract Expiration Date	Appreciation/ (Depreciation)
COVERED CALLS				
100	Holly Corp.....	\$ 55	Jan 07.....	\$ 15,199
200	Marathon Oil Co.....	100	Jan 07.....	28,171
100	Marathon Oil Co.....	105	Apr 07.....	(1,275)
50	Martin Marietta Materials, Inc.	100	Jan 07.....	(19,150)
75	Martin Marietta Materials, Inc.	115	Jan 07.....	6,149
300	Questar Corp.....	90	Jan 07.....	47,098
200	Questar Corp.....	90	Apr 07.....	46,317
100	Rohm & Haas Co.....	55	Jan 07.....	7,700



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1,125						130,209
-----						-----
	COLLATERALIZED PUTS					
100	Florida Rock Industries Inc....	30		111Jan	07.....	10,200
250	Forest Oil Corp.....	30	Feb	07.....		13,024
100	Marathon Oil Co.....	67.50		111Jan	07	10,700
100	Martin Marietta Materials, Inc.	75	Jan		07.....	10,482
100	Suncor Energy.....	65	Mar...	07.....		7,844
100	Valero Energy Corp.....	47.50	Jan	07.....		10,200
-----						-----
750						62,450
-----						-----
						\$192,659
						=====

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CHANGES IN PORTFOLIO SECURITIES

During the Three Months Ended December 31, 2006  
(unaudited)

	Shares		
	Additions	Reductions	Held Dec. 31, 2006
Dynegy, Inc.....	999 / (1) /	999	--
ENSCO International, Inc.....	75,000		209,150
SEMCO Energy, Inc.....	231,700		670,300
Valero Energy Corp.....	80,000		435,000
Arkema Inc.....		6,000	--
Aventine Renewable Energy Holdings, Inc.		40,000	--
BP plc ADR.....		95,000	330,000
CONSOL Energy Inc.....		30,000	--
Holly Corp.....		50,000	370,000
Hugoton Royalty Trust.....		23,343	--

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Pioneer Natural Resources Co.....	125,000	--
Total S.A. ADR.....	20,000	220,000
-----		
/(1) /Received 999 shares Dynegy, Inc. and \$22,520 from class action settlement.		

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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, 2006, 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, 2006 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Baltimore, Maryland  
January 19, 2007

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HISTORICAL FINANCIAL STATISTICS

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(unaudited)

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Dec. 31	Value of Net Assets	Shares Outstanding*	Net Asset Value Per Share*	Market Value Per Share*	Dividends From Investment Income Per Share*	Distributions From Net Realized Gains Per Share*	Total Dividends and Distributions Per Share*	Annua Distri
1992	\$320,241,282	17,369,255	\$18.44	\$16.83	\$.51	\$.82	\$1.33	7
1993	355,836,592	18,010,007	19.76	18.33	.55	.87	1.42	7
1994	332,279,398	18,570,450	17.89	16.83	.61	.79	1.40	7
1995	401,404,971	19,109,075	21.01	18.83	.58	.81	1.39	7
1996	484,588,990	19,598,729	24.73	23.17	.55	.88	1.43	6
1997	556,452,549	20,134,181	27.64	24.33	.51	1.04	1.55	6
1998	474,821,118	20,762,063	22.87	20.42	.52	1.01	1.53	6
1999	565,075,001	21,471,270	26.32	21.50	.48	1.07	1.55	7
2000	688,172,867	21,053,644	32.69	27.31	.39	1.35	1.74	6
2001	526,491,798	21,147,563	24.90	23.46	.43	1.07	1.50	5
2002	451,275,463	21,510,067	20.98	19.18	.43	.68	1.11	5
2003	522,941,279	21,736,777	24.06	23.74	.38	.81	1.19	5
2004	618,887,401	21,979,676	28.16	25.78	.44	.88	1.32	5
2005	761,913,652	21,621,072	35.24	32.34	.56	1.22	1.78	5
2006	812,047,239	22,180,867	36.61	33.46	.47	3.33	3.80	11

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

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

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Common Stock  
Listed on the New York Stock Exchange

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

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

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

Counsel: Chadbourne & Parke L.L.P.

Independent Registered Public Accounting Firm: PricewaterhouseCoopers LLP

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

Custodian of Securities: Brown Brothers Harriman & Co.

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### OTHER INFORMATION

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

In addition to publishing its complete schedule of portfolio holdings in the First and Third Quarter Reports to 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

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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, 2006 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 the Corporation's periodic filings with the Securities and Exchange Commission.

### PRIVACY POLICY

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

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

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

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### SPECIAL STOCKHOLDER MEETING

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A special meeting of stockholders was held on Tuesday, November 7, 2006. The purpose of the meeting was to approve a comprehensive rewriting and updating of the Corporation's corporate charter. All of the proposed charter amendments were approved by the stockholders. The results of the voting on the eight proposals were as follows:

	For	Against	Abstain
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Proposal 1 -- Purpose of the Corporation.....	11,832,131	930,080	591,454
Proposal 2 -- Classification, designation, etc., of stock	11,526,879	1,222,095	604,682
Proposal 3 -- Stockholder voting.....	11,335,381	1,383,635	634,641
Proposal 4 -- Stockholder election of directors.....	11,527,155	1,205,781	620,724
Proposal 5 -- Power to amend bylaws.....	11,167,482	1,527,621	658,552
Proposal 6 -- Quorum for stockholder meetings.....	11,502,023	1,213,356	638,279
Proposal 7 -- Determinations by the Board.....	11,462,952	1,224,791	665,914
Proposal 8 -- Miscellaneous conforming amendments.....	11,470,707	1,193,416	689,536

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. 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 26).

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

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week-ending NAV is published on Saturdays in various newspapers.

Petroleum's daily trading is shown in the stock tables of many 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.

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 26.

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.

How do I transfer shares held at American Stock Transfer (AST)?

There are many circumstances that require the transfer of shares to new registrations, e.g., marriage, death, a child reaching the age of maturity, or giving shares as a gift. Each situation requires different forms of documentation to support the transfer. You may obtain transfer instructions and

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download the necessary forms from our transfer agent's website:  
www.amstock.com. Click on Shareholder Services, then General Shareholder  
Information and Transfer Instructions.

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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 realized capital gain earned through October 31. Stockholders may elect to receive the year-end distribution in stock or cash. In connection with this distribution, all stockholders of record are sent a dividend announcement notice and an election card in mid-November.

Stockholders holding shares in "street" or brokerage accounts may make their elections by notifying their brokerage house representative.

#### INVESTORS CHOICE

INVESTORS CHOICE is a direct stock purchase and sale plan, as well as a dividend reinvestment plan, sponsored and administered by our transfer agent, American Stock Transfer & Trust Company (AST). The plan provides registered stockholders and interested first time investors an affordable alternative for buying, selling, and reinvesting in Petroleum & Resources shares.

The costs to participants in administrative service fees and brokerage commissions for each type of transaction are listed below.

Initial Enrollment and Optional Cash Investments	
Service Fee	\$2.50 per investment
Brokerage Commission	\$0.05 per share
Reinvestment of Dividends*	
Service Fee	2% of amount invested (maximum of \$2.50 per investment)
Brokerage Commission	\$0.05 per share
Sale of Shares	
Service Fee	\$10.00
Brokerage Commission	\$0.05 per share
Deposit of Certificates for safekeeping (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

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

A brochure which further details the benefits and features of INVESTORS CHOICE as well as an enrollment form may be obtained by contacting AST.

### For Non-Registered Shareholders

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

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

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

Investors Choice Mailing Address:  
Attention: Dividend Reinvestment  
P.O. Box 922  
Wall Street Station  
New York, NY 10269-0560  
Website: [www.amstock.com](http://www.amstock.com)  
E-mail: [info@amstock.com](mailto:info@amstock.com)

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

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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 Director
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Independent Directors						
Enrique R. Arzac, Ph.D. 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 65	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 Exp Sui Fun com
Phyllis O. Bonanno 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 63	Director	One Year	Since 2003	President & CEO of International Trade Solutions, Inc. (consultants). Formerly, President of Columbia College, Columbia, South Carolina, and Vice President of Warnaco Inc. (apparel).	Two	Dir Exp (in War Moh (ca
Daniel E. Emerson 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 82	Director	One Year	Since 1987	Chairman, The National YMCA Fund Inc. Retired Executive Vice President of NYNEX Corp. (communications), retired Chairman of The Board of both NYNEX Information Resources Co. and NYNEX Mobile Communications Co. Previously Executive Vice President and Director of New York Telephone Company.	Two	Dir Exp (in
Frederic A. Escherich 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 54	Director	One Year	Since 2006	Private Investor. Formerly, Managing Director and head of Mergers and Acquisitions Research and the Financial Advisory Department with J.P. Morgan.	Two	Dir Exp (in
Roger W. Gale 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 60	Director	One Year	Since 2005	President & CEO of GF Energy, LLC (consultants to electric power companies). Formerly, member of management group, PA Consulting Group (energy consultants).	Two	Dir Exp (in (ge ene Ass
Thomas H. Lenagh 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 88	Director	One Year	Since 1987	Financial Advisor. Formerly, Chairman of the Board and CEO of Greiner Engineering Inc. (formerly Systems Planning Corp.) (consultants).	Two	Dir Exp Cor (2 com

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Formerly, Treasurer and Chief Investment Officer of the Ford Foundation (charitable foundation).

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BOARD OF DIRECTORS (CONTINUED)

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 Director
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Independent Directors (continued)

Kathleen T. McGahran, Ph.D., J.D., C.P.A 7 St. Paul Street, Suite 1140 Baltimore, Md 21202 Age 56	Director	One Year	Since 2003	Principal & Director of Pelham Associates, Inc. (executive education), Adjunct Associate Professor, Columbia Executive Education, Graduate School of Business, Columbia University. Formerly, Associate Dean and Director of Executive Education, and Associate Professor, Columbia University.	Two	Director
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John J. Roberts 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 84	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
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Craig R. Smith, M.D. 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 60	Director	One Year	Since 2005	President, Williston Consulting LLC (consultants to pharmaceutical and biotechnology industries). Formerly, Chairman, President & CEO of Guilford Pharmaceuticals (pharmaceuticals and	Two	Director
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biotechnology).

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Interested Director

Douglas G. Ober 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 60	Director, Chairman, President and CEO One Year since 1989; Chairman of the Board since 1991	Director Chairman & CEO of the Corporation and The Adams Express Company.	Two	Dir Exp (in
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PETROLEUM & RESOURCES CORPORATION

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Board Of Directors

Enrique R. Arzac/(1)(3) /	Thomas H. Lenagh/(1)(4) /
Phyllis O. Bonanno/(1)(4) /	Kathleen T. McGahran/(2)(4) /
Daniel E. Emerson/(2)(3) /	Douglas G. Ober/(1) /
Frederic A. Escherich/(2)(3) /	John J. Roberts/(1)(3) /
Roger W. Gale/(1)(3) /	Craig R. Smith/(2)(4) /

-----  
 /(1)/ Member of Executive Committee  
 /(2)/ Member of Audit Committee  
 /(3)/ Member of Compensation Committee  
 /(4)/ Member of Retirement Benefits Committee

Officers

Douglas G. Ober	Chairman, President and Chief Executive Officer
Joseph M. Truta	Executive Vice President
Lawrence L. Hooper, Jr.	Vice President, General Counsel and Secretary
Maureen A. Jones	Vice President, Chief Financial Officer and Treasurer
Nancy J.F. Prue	Vice President
Robert E. Sullivan	Vice President -- Research

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Christine M. Sloan	Assistant Treasurer
Geraldine H. Pare	Assistant Secretary

[GRAPHIC]

Petroleum  
& Resources  
Corporation

PETROLEUM & RESOURCES CORPORATION  
Seven St. Paul Street, Suite 1140  
BALTIMORE, MD 21202  
(410)752-5900 or (800)638-2479  
Contact us on the Web at: [www.peteres.com](http://www.peteres.com)

### Item 2. Code of Ethics.

On June 12, 2003, the Board of Directors adopted a code of ethics that applies to registrant's principal executive officer and principal financial officer. The code of ethics is available on registrant's website at: [www.peteres.com](http://www.peteres.com). Since the code of ethics was adopted there have been no amendments to it nor have any waivers from any its provisions been granted.

### Item 3. Audit Committee Financial Expert.

The board of directors has determined that at least one of the members of registrant's audit committee meets the definition of audit committee financial expert as that term is defined by the Securities and Exchange Commission. The director on the registrant's audit committee whom the board of directors has determined meets such definition is Kathleen T. McGahran, who is independent pursuant to paragraph (a)(2) of this Item.

### Item 4. Principal Accountant Fees and Services.

(a) Audit Fees. The aggregate fees for professional services rendered by its independent auditors, PricewaterhouseCoopers LLP, for the audits of the Corporation's annual and semi-annual financial statements for 2006 and 2005 were \$64,160 and \$55,310, respectively.

(b) Audit Related Fees. There were no audit-related fees in 2006 and 2005.

(c) Tax Fees. The aggregate fees 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 2006 and 2005 were \$9,523 and \$8,900, respectively.

(d) All Other Fees. The aggregate fees to registrant by PricewaterhouseCoopers LLP other than for the services

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referenced above for 2006 and 2005 were \$6,156 and \$800, respectively. The \$6,156 for services in 2006 related to the review of the Corporation's procedures for calculating the amounts to be paid or granted to the Corporation's officers in accordance with the Corporation's cash incentive plan and the 2005 Equity Incentive Compensation Plan, review of the Corporation's calculations related to those plans, and preparation of a report to the Corporation's Compensation Committee.

(e) (1) Audit Committee Pre-Approval Policy. As of 2006, all services to be performed for registrant by PricewaterhouseCoopers LLP must be pre-approved by the audit committee. All services performed in 2006 were pre-approved by the committee.

(2) Not applicable.

(f) Not applicable.

(g) The aggregate fees by PricewaterhouseCoopers LLP for non-audit professional services rendered to registrant for 2006 and 2005 were \$15,679 and \$9,700, 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, Frederic A. Escherich, and Craig R. Smith.

(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.

### PROXY VOTING GUIDELINES

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

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portfolio, among the factors the research team analyses 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 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. 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 blatant anti-takeover provisions.

With respect to so-called golden parachutes and other severance packages, it is our general policy to vote against

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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 15, 2007. 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 net assets of \$1,377,418,310 as of December 31, 2006. Mr. Ober is Chairman and Chief Executive Officer of Adams and Mr. Truta is President. This information is as of February 15, 2007. 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 January 2006, 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. Grants of restricted stock were also made on January 12, 2006, that will vest at the end of three years, but only upon the achievement of specified performance criteria; certain percentages of the target number of shares will be deemed to have been earned based on achieving performance goals over specified intervening time periods. The benchmark used to measure performance is a hypothetical portfolio comprised of a 80/20 blend of the Dow Jones Oil and Gas Index and the S&P 500 Index ("Hypothetical Portfolio"). The first one-sixth of the target number of restricted shares would have been earned if, on January 1, 2007, the Corporation's one year total NAV return met or exceeded the one year total NAV return of the Hypothetical Portfolio. Because the Corporation's NAV return trailed that of the Hypothetical Portfolio on that date, only 52.1% of the first one-sixth of the target number was earned. For the next one-third of the target number of shares, those shares will be deemed to have been earned if, on January 1, 2008, the Corporation's two year total NAV return meets or exceeds that of the Hypothetical Portfolio, with a lesser percentage or no shares being earned if the Corporation's total NAV return trails that of the Hypothetical Portfolio, depending on the level of



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underperformance on that date. The remaining 50% of the target shares will be deemed to have been earned if, on January 1, 2009, the Corporation's three year total NAV return meets or exceeds that of the Hypothetical Portfolio, with a lesser percentage or no shares being earned if the Corporation's total NAV return trails that of the Hypothetical Portfolio, depending on the level of underperformance on that date. In addition, if, on January 1, 2009, the Corporation's three year total NAV return exceeds that of the Hypothetical Portfolio, an additional number of shares up to 50% of the target number of shares will be earned and vest depending on the level of outperformance. Dividends and capital gains paid on the Corporation's shares of Common Stock ("dividends") will be paid on all of the target number of shares of restricted stock, when such dividends are paid on the Common Stock, except that no dividends or capital gains will be paid on any shares that are forfeited due to the failure to achieve the performance criteria described above. The basis for the cash incentive and equity incentive compensation determinations for Adams is the same as for Petroleum, except that the portion of the cash incentive based upon fund performance uses the S&P 500 Index as the benchmark, over a one and three year period, and the benchmark used to measure fund performance for equity incentive compensation is a hypothetical portfolio comprised of a 50/50 blend of the S&P 500 Index and the Lipper Large Cap Core Mutual Fund Index. All of the above information is as of December 31, 2006, except as noted.

(4) Using a valuation date of December 31, 2006, 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 Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Jan. 2006	51,250	\$ 34.92	51,250	983,427
Feb. 2006	88,000	\$ 33.63	88,000	895,427
Mar. 2006	98,500	\$ 32.81	98,500	796,427
Apr. 2006	59,400	\$ 34.43	59,400	737,527
May 2006	60,200	\$ 34.33	60,200	677,327
June 2006	97,350	\$ 31.75	97,350	579,977
Jul. 2006	3,350	\$ 34.78	3,350	576,627
Aug. 2006	67,500	\$ 35.47	67,500	509,127
Sep. 2006	0	\$ 0.00	0	509,127
Oct. 2006	141,600	\$ 34.11	141,600	367,527

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Nov. 2006	68,500	\$ 34.62	68,500	299,027
Dec. 2006	92,309	\$ 33.99	92,309	206,718
<hr/>				
Total	827,959 (1)	\$ 33.86	827,959 (2)	206,718 (2)

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

(2.a) The Plan was extended on December 8, 2005 and was reapproved on December 14, 2006.

(2.b) The share amount approved in 2005 was 5% of outstanding shares, or approximately 1,060,377 shares, and in 2006 was 5% of outstanding shares, or approximately 1,045,164 shares.

(2.c) Unless reapproved, the Plan will expire on or about December 13, 2007.

(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 15, 2007, 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 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

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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 15, 2007

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 15, 2007

BY: /s/ Maureen A. Jones

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Maureen A. Jones  
Vice President, Chief Financial Officer and Treasurer  
(Principal Financial Officer)

Date: February 15, 2007