

PETROLEUM & RESOURCES CORP
Form N-Q
April 22, 2014

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT
INVESTMENT COMPANY**

Investment Company Act file number: 811-02736

PETROLEUM & RESOURCES CORPORATION

(Exact name of registrant as specified in charter)

Seven Saint Paul Street, Suite 1140, Baltimore, Maryland 21202

(Address of principal executive offices)

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

(Name and address of agent for service)

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

Date of fiscal year end: December 31

Date of reporting period: March 31, 2014

Item 1. Schedule of Investments.

SCHEDULE OF INVESTMENTS

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March 31, 2014

(unaudited)

| | Shares | Value (A) |
|---|-----------|---------------|
| Common Stocks 99.4% | | |
| Energy 80.2% | | |
| Exploration & Production 29.1% | | |
| Anadarko Petroleum Corp. | 300,000 | \$ 25,428,000 |
| Cabot Oil & Gas Corp. | 339,300 | 11,495,484 |
| ConocoPhillips | 197,000 | 13,858,950 |
| Energen Corp. | 175,000 | 14,141,750 |
| EOG Resources, Inc. | 189,000 | 37,076,130 |
| EQT Corp. | 160,000 | 15,515,200 |
| Hess Corp. | 250,000 | 20,720,000 |
| Marathon Oil Corp. | 571,000 | 20,281,920 |
| Newfield Exploration Co. (C) | 270,000 | 8,467,200 |
| Noble Energy, Inc. | 373,500 | 26,533,440 |
| Oasis Petroleum, Inc. (C) | 150,000 | 6,259,500 |
| Occidental Petroleum Corp. | 405,000 | 38,592,450 |
| Pioneer Natural Resources Co. | 99,500 | 18,620,430 |
| | | 256,990,454 |
| Integrated Oil & Gas 26.0% | | |
| Chevron Corp. | 763,200 | 90,752,112 |
| Exxon Mobil Corp. (E) (F) | 1,408,430 | 137,575,442 |
| | | 228,327,554 |
| Pipelines 2.1% | | |
| Kinder Morgan Inc. | 250,000 | 8,122,500 |
| Williams Companies, Inc. | 250,000 | 10,145,000 |
| | | 18,267,500 |
| Refiners 4.9% | | |
| Marathon Petroleum Corp. | 110,000 | 9,574,400 |
| Phillips 66 | 431,275 | 33,234,052 |
| | | 42,808,452 |
| Services 18.1% | | |
| Baker Hughes, Inc. | 30,000 | 1,950,600 |
| Ensc o plc | 140,000 | 7,389,200 |
| Halliburton Co. | 610,870 | 35,974,134 |
| Nabors Industries Ltd. (E) | 480,000 | 11,832,000 |
| National Oilwell Varco, Inc. | 250,000 | 19,467,500 |
| Oil States International Inc. (C) | 100,000 | 9,860,000 |
| Schlumberger Ltd. (E) | 560,000 | 54,600,000 |
| Seadrill Ltd. (B) | 200,003 | 7,032,106 |
| Weatherford International, Ltd. (C) | 645,000 | 11,197,200 |
| | | 159,302,740 |

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Basic Materials 19.2%

Chemicals 16.4%

| | | |
|--|---------|------------|
| CF Industries Holdings, Inc. (E) | 84,069 | 21,911,744 |
| Dow Chemical Co. | 547,500 | 26,603,025 |
| Eastman Chemical Co. (E) | 166,000 | 14,310,860 |
| FMC Corp. | 100,000 | 7,656,000 |
| LyondellBasell Industries N.V. (Class A) | 354,000 | 31,484,760 |
| Monsanto Co. | 194,400 | 22,116,888 |
| Praxair, Inc. | 150,000 | 19,645,500 |

143,728,777

Gold & Precious Metals 0.6%

| | | |
|-------------------------|--------|-----------|
| SPDR Gold Trust (C) (E) | 45,000 | 5,562,450 |
|-------------------------|--------|-----------|

Industrial Metals 1.8%

| | | |
|-------------------------------------|---------|------------|
| Freeport-McMoRan Copper & Gold Inc. | 487,000 | 16,105,090 |
|-------------------------------------|---------|------------|

Mining 0.4%

| | | |
|----------------------|---------|-----------|
| Peabody Energy Corp. | 202,440 | 3,307,870 |
|----------------------|---------|-----------|

Total Common Stocks

(Cost \$475,804,428) 874,400,887

SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2014

(unaudited)

| | Principal/ Shares | Value (A) |
|--|----------------------|--------------|
| Short-Term Investments 0.5% | | |
| Money Market Account 0.5% | | |
| M&T Bank, 0.15% | \$ 4,671,243 | \$ 4,671,243 |
| Money Market Funds 0.0% | | |
| Fidelity Institutional Money Market - Money Market Portfolio (Institutional Class), 0.09% (D) | 100,000 | 100,000 |
| Total Short-Term Investments | | |
| (Cost \$4,771,243) | | 4,771,243 |
| Securities Lending Collateral 0.8% | | |
| (Cost \$6,540,860) | | |
| Money Market Funds 0.8% | | |
| Invesco Short-Term Investment Trust - Liquid Assets Portfolio (Institutional Class), 0.06% (D) | 6,540,860 | \$ 6,540,860 |
| | | 885,712,990 |

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Total Investments 100.7%

(Cost \$487,116,531)

Cash, receivables, prepaid expenses and other assets, less liabilities (0.7%) (6,025,527)

Net Assets 100.0%

\$ 879,687,463

Notes:

- (A) Common stocks are listed on the New York Stock Exchange or the NASDAQ and are valued at the last reported sale price on the primary exchange on the day of valuation.
- (B) A portion of shares held are on loan.
- (C) Presently non-dividend paying.
- (D) Rate presented is as of period-end and represents the annualized yield earned over the previous seven days.
- (E) All or a portion of this security is pledged to cover open written call option contracts. Aggregate market value of such pledged securities is \$28,573,800.
- (F) All or a portion of this security is pledged to collateralize open written put option contracts with an aggregate market value to deliver upon exercise of \$15,719,500.

See accompanying notes.

SCHEDULE OF OUTSTANDING WRITTEN OPTION CONTRACTS

March 31, 2014

(unaudited)

| Contracts (100 shares each) | Security | Strike Price | Contract Expiration Date | Value |
|-----------------------------------|------------------------------|-----------------|--------------------------------|-----------|
| COVERED CALLS | | | | |
| 400 | CF Industries Holdings, Inc. | \$290 | May 14 | \$ 89,600 |
| 200 | Eastman Chemical Co. | 90 | Jun 14 | 37,000 |
| 200 | Eastman Chemical Co. | 95 | Jun 14 | 13,000 |
| 500 | Exxon Mobil Corp. | 95 | Apr 14 | 160,000 |
| 500 | Nabors Industries, Ltd. | 27 | Jun 14 | 35,500 |
| 500 | Schlumberger Ltd. | 100 | May 14 | 79,500 |
| 150 | SPDR Gold Trust ETF | 143 | Jun 14 | 4,200 |
| 150 | SPDR Gold Trust ETF | 143 | Sep 14 | 15,300 |
| 2,600 | | | | 434,100 |

COLLATERALIZED PUTS

| | | | | |
|---|--|-------|--------|------------|
| 500 | Boeing Co. | 50 | Apr 14 | 3,000 |
| 1 | CF Industries Holdings, Inc. | 190 | May 14 | 39 |
| 500 | Exxon Mobil Corp. | 75 | Apr 14 | 500 |
| 250 | Exxon Mobil Corp. | 85 | Jul 14 | 12,000 |
| 234 | LyondellBasell Industries N.V. (Class A) | 70 | Jun 14 | 8,190 |
| 250 | National Oilwell Varco, Inc. | 72.50 | May 14 | 15,750 |
| 500 | Schlumberger Ltd. | 77.50 | May 14 | 6,500 |
| 2,235 | | | | 45,979 |
| Total Option Liability (Unrealized Gain of \$101,440 on Premiums Received of \$581,519) | | | | \$ 480,079 |

See accompanying notes.

NOTES TO SCHEDULES OF INVESTMENTS AND OUTSTANDING WRITTEN OPTION CONTRACTS (Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Petroleum & Resources Corporation (the Fund) is registered under the Investment Company Act of 1940 as a non-diversified investment company. The Fund is an internally-managed closed-end fund emphasizing petroleum and other natural resource investments.

Security Transactions - Investment transactions are accounted for on the trade date. Gain or loss on sales of securities and options is determined on the basis of specific identification.

Security Valuation - The Fund's investments are reported at fair value as defined under accounting principles generally accepted in the United States of America. Investments in securities traded on national security exchanges are valued at the last reported sale price on the primary exchange 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 and money market funds) are valued at amortized cost, which approximates fair value. Purchased and written options are valued at the last quoted bid and asked price, respectively. Money market funds are valued at net asset value on the day of valuation.

Various inputs are used to determine the fair value of the Fund's investments. These inputs are summarized as follows:

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

The Fund's investments at March 31, 2014 were classified as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------|----------------|----------------|----------------|---------------|
| Stocks | \$874,400,887 | \$-- | \$-- | \$874,400,887 |
| Short-term investments | 4,771,243 | -- | -- | 4,771,243 |
| Securities lending collateral | 6,540,860 | -- | -- | 6,540,860 |
| | | | | |
| Total investments | \$885,712,990 | \$-- | \$-- | \$885,712,990 |
| | | | | |
| Written options | \$(480,079) | \$-- | \$-- | \$(480,079) |

There were no transfers into or from Level 1 or Level 2 during the quarter ended March 31, 2014.

2. FEDERAL INCOME TAXES

For federal income tax purposes, the identified cost of securities at March 31, 2014 was \$487,116,531 and net unrealized appreciation aggregated \$398,596,459, of which the related gross unrealized appreciation and depreciation were \$413,909,661 and \$(15,313,202), respectively.

3. INVESTMENT TRANSACTIONS

The Fund's investment decisions are made by the portfolio management team with recommendations from the research staff.

The Fund is subject to changes in the value of equity securities held (equity price risk) in the normal course of pursuing its investment objectives. The Fund may purchase and write option contracts to increase or decrease its equity price risk exposure or may write option contracts to generate additional income. Option contracts generally entail risks associated with counterparty credit, liquidity, and unfavorable equity price movements. The Fund has mitigated counterparty credit and liquidity risks by trading its options through an exchange. The risk of unfavorable equity price movements is limited for purchased options to the premium paid and for written options by writing only covered call or collateralized put option contracts, which require the Fund to segregate certain securities or cash at its custodian when the option is written.

When the Fund writes (purchases) an option, an amount equal to the premium received (paid) by the Fund is recorded as a liability (asset) and is subsequently marked to market daily in the Statement of Assets and Liabilities, with any related change recorded as an unrealized gain or loss in the Statement of Operations. Premiums received (paid) from unexercised options are treated as realized gains (losses) on the expiration date. Upon the exercise of written put (purchased call) option contracts, premiums received (paid) are deducted from (added to) the cost basis of the underlying securities purchased. Upon the exercise of written call (purchased put) option contracts, premiums received (paid) are added to (deducted from) the proceeds from the sale of underlying securities in determining whether there is a realized gain or loss.

4. PORTFOLIO SECURITIES LOANED

The Fund makes loans of securities to approved brokers to earn additional income. It receives as collateral cash deposits, U.S. Government securities, or bank letters of credit valued at 102% of the value of the securities on loan. The market value of the loaned securities is calculated based upon the most recent closing prices and any additional required collateral is delivered to the Fund on the next business day. Cash deposits are placed in a registered money market fund. The Fund accounts for securities lending transactions as secured financing and receives compensation in the form of fees or retains a portion of interest on the investment of any cash received as collateral. The Fund also

continues to receive interest or dividends on the securities loaned. Gain or loss in the fair value of securities loaned that may occur during the term of the loan will be for the account of the Fund. At March 31, 2014, the Fund had securities on loan of \$6,437,796 and held cash collateral of \$6,540,860; additional collateral was delivered the next business day in accordance with the procedure described above. The Fund is indemnified by its lending agent for loss of loaned securities and has the right under the lending agreement to recover the securities from the borrower on demand.

Item 2. Controls and Procedures.

(a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) are effective based on their evaluation of the disclosure controls and procedures as of a date within 90 days of the filing date of this report.

(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) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

The certifications of the principal executive officer and principal financial officer pursuant to Rule 30a-2(a) under the Investment Company Act of 1940 are attached hereto as Form N-Q Certifications.

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/ Mark E. Stoeckle
Mark E. Stoeckle
Chief Executive Officer
(Principal Executive Officer)

Date: April 22, 2014

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/ Mark E. Stoeckle
Mark E. Stoeckle

Chief Executive Officer
(Principal Executive Officer)

Date: April 22, 2014

By: /s/ Brian S. Hook
Brian S. Hook
Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

Date: April 22, 2014