SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[ ] Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

[X] Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Transition Period from July 1, 1997 to December 31, 1997

COMMISSION FILE NO. 1-13726

CHESAPEAKE ENERGY CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

OKLAHOMA	73-1395733
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6100 NORTH WESTERN AVENUE OKLAHOMA CITY, OKLAHOMA	73118
(Address of principal executive offices)	(Zip Code)

(405) 848-8000
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value $.01	New York Stock Exchange
9.125% Senior Notes due 2006	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of Common Stock held by non-affiliates on March 25, 1998 was $452,116,000. At such date, there were 100,102,000 shares of Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

PORTIONS OF THE REGISTRANT'S DEFINITIVE PROXY STATEMENT FOR THE 1998 ANNUAL MEETING OF SHAREHOLDERS ARE INCORPORATED BY REFERENCE IN PART III

PART I

ITEM 1. BUSINESS

OVERVIEW

Chesapeake Energy Corporation ("Chesapeake" or the "Company") is an independent oil and gas company engaged in the exploration, production, development and acquisition of oil and natural gas in major onshore producing areas of the United States and Canada.

The Company has changed its fiscal year end from June 30 to December 31. This Transition Report on Form 10-K relates to the six months ended December 31, 1997 (the "Transition Period").

From inception in 1989 through December 31, 1997, Chesapeake drilled and participated in a total of 824 gross (334 net) wells, of which 768 gross (312 net) wells were completed. From June 30, 1990 to December 31, 1997, the Company's estimated proved reserves increased to 448 Bcfe from 11 Bcfe and total assets increased to $953 million from $8 million. Despite this overall favorable record of growth, in fiscal 1997 and in the Transition Period, the Company incurred net losses of $183 million and $32 million, respectively, primarily as a result of $236 million and $110 million, respectively, impairments of its oil and gas properties. The impairments were the amounts by which the Company's capitalized costs of oil and gas properties exceeded the estimated present value of future net revenues from its proved reserves at June 30, 1997 and at December 31, 1997, respectively. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations -- Impairment of Oil and Gas Properties".

In response to the losses, Chesapeake significantly revised its business strategy during the Transition Period. These revisions included (i) reducing the size and risk of its exploratory drilling program, especially in the Louisiana Trend, (ii) acquiring significant quantities of long-lived natural gas reserves, particularly in the Mid-Continent region of the U.S., (iii) building a larger inventory of lower risk drilling opportunities through acquisitions and joint ventures and (iv) reducing its capital expenditure budget for exploration and development to more closely match anticipated cash flow from operations.

The Company has acquired or has agreed to acquire a substantial amount of proved oil and gas reserves through mergers and acquisitions of oil and gas properties. Since October 1997, the Company has entered into 10 transactions to acquire approximately 716 Bcfe of estimated proved reserves (the "Acquisitions") at an estimated cost of $717 million. Of these transactions, one was closed in December 1997, three were closed in the first quarter of 1998 and six are pending. These transactions are discussed in more detail under "Recent and Pending Acquisitions."

Reference is made to the "Glossary" that appears at the end of this Item 1 for definitions of certain terms used in this Form 10-K.

DESCRIPTION OF BUSINESS

Since its inception in 1989 through mid-1997, Chesapeake's primary business strategy was growth through the drillbit. Using this strategy, the Company rapidly expanded its reserves and production through an aggressive drilling program. However, in mid-1997 the Company's drilling disappointments in Louisiana and the industry's escalating drilling and completion costs caused management to change the Company's business strategy. The Company is now focused on acquiring proved developed reserves, primarily in the Mid-Continent Region of the United States and in Western Canada, and increasing its portfolio of low to moderate risk drilling opportunities.

Management believes that attractive opportunities exist to consolidate assets onshore in the U.S., particularly in the Mid-Continent Region. This area is characterized by long-life natural gas reserves that typically have multiple producing formations. Management believes that consolidation of reserves in this area will add significant value through greater operating efficiencies and the application of horizontal drilling and 3-D seismic to previously underdeveloped properties. In addition, long-life natural gas reserves provide a solid foundation for higher-risk

exploration activities and provide the opportunity to benefit from potentially higher natural gas prices in the future. The Company has made substantial progress in building a long-life reserve base by acquiring or agreeing to acquire approximately 716 Bcfe of proved reserves for an estimated $717 million since October 1997.

In pursuing its revised strategy, the Company has better positioned itself to pursue opportunities that provide the highest risk-adjusted returns, either through the drillbit or acquisitions. Further, the Company believes its substantial drilling expertise and strong exploration staff will allow it to more fully exploit acquired assets. Finally, the long-lived nature of the assets acquired allows the Company greater capital investment flexibility in times of low commodity prices without experiencing a significant decline in production.

The following table sets forth the Company's estimated proved reserves (net of interests of other working and royalty interest owners and others entitled to share in production), the related present value (discounted at 10%) of the proved reserves, and the estimated capital expenditures required to develop the Company's proved undeveloped reserves at December 31, 1997, and does not include approximately 690 Bcfe of proven reserves acquired or to be acquired after December 31, 1997.

AREAS	OIL (MBBL)	GAS (MMCF)	GAS EQUIVALENT (MMCFE)	PERCENT OF PROVED RESERVES	PRESENT VALUE (DISC. @ 10%) ($ IN 000'S)	ESTIMATED CAPEX TO DEVELOP PUD'S ($ IN 000'S)
Mid-Continent Region.....	5,832	184,313	219,305	49%	186,732	64,626
Austin Chalk Trend.....	8,694	138,362	190,526	43	233,601	74,351
Other areas.....	3,700	16,443	38,643	8	46,176	13,944
Total.....	18,226	339,118	448,474	100%	466,509	152,921

PRIMARY OPERATING AREAS

The Company's strategy is to focus its acquisition and drilling efforts in three areas: (i) the Mid-Continent Region (consisting of Oklahoma, southwestern Kansas and the Texas Panhandle), (ii) the Austin Chalk Trend in Texas and Louisiana, and (iii) the western Canadian provinces of Alberta and British Columbia. In addition, the Company will selectively pursue exploration projects such as the Tuscaloosa Trend in Louisiana, the Deep Wilcox project in Wharton County, Texas, and the Lovington project in New Mexico.

Mid-Continent Region. The Company's Mid-Continent Region assets represented 49% of the Company's total proved reserves as of December 31, 1997. The Company has entered into seven transactions involving the acquisition of Mid-Continent properties during the past six months. Of these acquisitions, only the AnSon acquisition was included in the Company's December 31, 1997 proved reserves. Set forth below is a table which summarizes the Company's announced Mid-Continent transactions:

Seller	Date Announced	Status	Primary Area of Operation	Estimated Proved Reserves as of December 31, 1997 (in Bcfe)	Estimated Proved Reserves Acquisition Cost (in millions)
AnSon Production Corporation	October 1997	Closed December 1997	Deep Anadarko Basin	26	$36(1)
DLB Oil and Gas, Inc.	October 1997	Pending; scheduled to close April 1998	Southern and Northwestern Oklahoma	110	$122(1)
Hugoton Energy Corporation	November 1997	Closed March 1998	Southwestern Kansas, Northwestern Oklahoma, Texas Panhandle	246	$306(1)
EnerVest Management Company, L.L.C.	January 1998	Closed February 1998	Deep Anadarko Basin	43	$ 38
MC Panhandle Corp. (a wholly-owned subsidiary of Occidental Petroleum Corporation)	March 1998	Pending; scheduled to close May 1998	Texas Panhandle	108	$100(1)
Gothic Energy Corporation	March 1998	Pending; scheduled to close April 1998	Arkoma and Anadarko Basins	52(2)	$ 20

Miscellaneous (two transactions)	March 1998	Pending; scheduled to close May 1998	Arkoma and Anadarko Basins	35	$ 34
			Totals	620 Bcfe	$656

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(1) Excludes other assets of $7 million for AnSon, $10 million for DLB, $20 million for Hugoton and $5 million for MC Panhandle. Also excludes estimated transaction fees and expenses.

(2) Includes an estimated 30 Bcfe of proved undeveloped reserves associated with a 50% interest in a five-year drilling and acquisitions participation agreement.

Pro forma for the Acquisitions, the Company's proved reserves as of December 31, 1997 were approximately 1,138 Bcfe, of which 811 Bcfe, or 71%, are located in the Mid-Continent.

In the Transition Period, the Company invested approximately $67 million to drill 18 gross (11.8 net) wells in the Mid-Continent. The Company has budgeted approximately $88 million for the Mid-Continent during 1998, representing approximately 38% of the Company's total budget for exploration and development activities during the year. The Company anticipates the Mid-Continent will contribute approximately 63 Bcfe of production, pro forma for the Acquisitions, during 1998, or 47% of expected total production.

Austin Chalk Trend. Chesapeake's second largest concentration of reserves and its highest concentration of present value (as of December 31, 1997 and before giving effect to the Acquisitions) is located in the Austin Chalk Trend, which consists of the Giddings Field in Texas and the central portion of Louisiana and far southeast Texas (the "Louisiana Trend"). The Company's activities in the Louisiana Trend are concentrated in the Masters Creek area of central Louisiana.

The Company initiated its exploration and development efforts in the Giddings Field in 1992 and peak activity occurred in 1994 and 1995. From 1992 through December 31, 1997, the Company drilled 226 wells in this area with a 97% success rate. During the Transition Period, the Giddings Field contributed approximately 16.6 Bcfe, or 43% of the Company's total production. The Company expects production to decline in this relatively mature area in 1998. In the Transition Period, the Company invested approximately $13 million to drill 11 gross (4.2 net) wells in Giddings. The Company has budgeted approximately $12 million to drill 8 gross (3.9 net) wells in Giddings during 1998.

In late 1994, Occidental Petroleum Corporation ("Occidental") drilled a significant horizontal Austin Chalk discovery well in the Masters Creek area. Chesapeake responded to Occidental's announcement by extensively reviewing and analyzing vertical drilling reports, electric logs, mud logs, seismic data and production records to arrive at a geological conclusion that the Austin Chalk could be productive across a large portion of central and southeastern Louisiana. Accordingly, and in competition with Union Pacific Resources Company, Sonat, Inc., Occidental, Amoco Production Company, and others, Chesapeake invested approximately $149 million from fiscal 1995 through December 31, 1997 to acquire over 1.1 million acres of leasehold in the Louisiana Trend. Beginning in 1995 and continuing through December 31, 1997, Chesapeake expended an additional $215 million to initiate drilling efforts on 80 gross (37.9 net) exploratory and developmental wells to evaluate its leasehold position.

From December 1996 through April 1997, the Company initiated drilling efforts on 15 of its exploratory wells in the Louisiana Trend. Between April 1997 and July 1997, the Company completed operations on 10 of these wells, eight of which were completed after June 1, 1997. Based upon the disappointing results from these wells, the Company made the determination that a significant amount of leasehold previously classified as unevaluated had become evaluated. This determination resulted in a transfer of approximately $91 million of previously unevaluated leasehold costs to the Company's full cost pool. Combined with disappointing drilling results, higher drilling costs and lower oil and gas prices, the Company incurred a $236 million full-cost ceiling writedown in the fourth quarter of fiscal 1997.

At June 30, 1997, the Company had nine rigs operating in the Louisiana Trend. As a result of the disappointing results being encountered at that time, the Company began to reduce its exploration and development activities in Louisiana, and by March 20, 1998 the Company was operating six rigs in the Louisiana Trend.

During the Transition Period, the Company completed operations on 11 wells in the Masters Creek area. Although 10 of the 11 wells were commercially productive, the $58 million of drilling costs incurred were higher and developed oil and gas reserves were lower than expected. The lower reserve quantities were due in part to lower oil prices at December 31, 1997. The Company incurred approximately $85 million in capital expenditures in the Louisiana Trend during the Transition Period and transferred approximately $11 million of leasehold costs from all areas of the Louisiana Trend to the amortization base of its full-cost pool.

The Company intends to focus its Louisiana drilling in 1998 in the Masters Creek area and to allow others to lead the exploration of areas outside of Masters Creek. For 1998, the Company has budgeted $64 million to drill approximately 13 gross (10.7 net) wells targeting the Austin Chalk formation in the Louisiana Trend. This expenditure, in combination with anticipated seismic costs, represents approximately 27% of the Company's planned exploration and development capital expenditures for 1998. Although it has substantially reduced its budget for the Louisiana Trend, the Company believes there are significant economic drilling opportunities remaining in the Masters Creek area. Additionally, the Company is now completing the various 3-D seismic programs necessary to begin evaluating its Louisiana leasehold for potential Tuscaloosa exploration opportunities.

Western Canada Region. During fiscal 1996 and 1997, the Company began to evaluate the possibility of developing a third core area of operations in western Canada. Management believes the North American gas market is significantly tightening and as a result, Canadian natural gas prices, which have significantly lagged U.S. natural gas prices during the past 15 years, should increase markedly in the next 12 months. Management also believes the exploration potential of western Canada exceeds the upside potential of most onshore areas in the U.S. The Company has recently entered into three transactions which have established a substantial presence in western Canada and expects to increase its natural gas assets in western Canada in 1998. A summary of the Company's Canadian transactions to date are summarized below:

Seller	Date Announced	Status	Primary Area of Operation	Estimated Proved Reserves as of December 31, 1997 (in Bcfe)	Estimated Proved Reserves Acquisition Cost (in millions)
Pan East Petroleum Corp.	November 1997	Closed December 1997	Western Alberta, Northeastern British Columbia	None; purchased 19.9% of Pan East's common stock and entered into a two year, 50/50 drilling and acquisitions participation agreement	N/A
Ranger Oil Limited	January 1998	Closed January 1998	Northeastern British Columbia	54	$28(1)
Sunoma Energy Corporation	March 1998	Pending; scheduled to close April 1998	Northeastern British Columbia	42	$33
			Totals	96 Bcfe	$61

(1) Excludes $20 million related to unevaluated leasehold and other assets.

OTHER OPERATING AREAS

Tuscaloosa Trend. In 1997 Chesapeake initiated two large 3-D seismic projects to evaluate approximately 90,000 acres of leasehold in the Tuscaloosa Trend portion of Louisiana. The Tuscaloosa is one of the most prolific deep gas reservoirs located along the Gulf Coast and 3-D seismic has proven effective in reducing the risk associated with the exploration for deep gas reserves in the Tuscaloosa. The Company anticipates initiating its drilling program for the Tuscaloosa formation during 1998 and has budgeted $25 million to drill 4 wells.

Permian Basin. In 1995 the Company initiated drilling activity in the Permian Basin in the Lovington area of Lea County, New Mexico. In this project, the Company is utilizing 3-D seismic technology to search for algal reef buildups that management believes have been overlooked in this portion of the Permian Basin because of inconclusive results provided by traditional 2-D seismic technology. During the Transition Period, the Company initiated 10 wells in the Lovington area, six of which were successfully completed, one was unsuccessful and three were drilling. The Company has budgeted approximately $17 million to drill 15 gross (10.0 net) wells and conduct seismic in this area during 1998.

Wharton County, Texas. During fiscal 1997, the Company acquired approximately 25,000 net acres at a cost of approximately $29 million in Wharton County, Texas. This exploration project is seeking gas production from the shallower Frio and Yegua sands and from the Deep Wilcox at depths of up to 19,000 feet. The Company intends to participate with a 55% interest in an 85,000 acre 3-D seismic program with Coastal Oil & Gas Corporation, Seagull Energy Corporation and other industry partners during 1998 to delineate potential future drillsites in the vicinity of Coastal's Zeidman Trustee wells.

Williston Basin. During fiscal 1996, Chesapeake began acquiring leasehold in the Williston Basin, located in eastern Montana and western North Dakota, and as of December 31, 1997 owned approximately 1.0 million gross (0.6 million net) acres. During the Transition Period, the Company drilled and successfully completed six wells targeting the Red River formation on the northern portion of its leasehold. The Company has budgeted $2 million to drill 2 gross (1.4 net) wells during 1998 in the Williston Basin.

RECENT AND PENDING ACQUISITIONS

In October 1997, Chesapeake agreed to acquire by merger the Mid-Continent operations of DLB Oil & Gas, Inc. ("DLB"). In its Mid-Continent division, DLB owns approximately 110 Bcfe of proved reserves, nine gas gathering systems and a gas marketing subsidiary. Chesapeake will pay $17.5 million in cash and will issue five million shares of Chesapeake common stock as merger consideration to the shareholders of DLB and will assume approximately $85 million in debt at closing. The closing of the DLB acquisition, which is expected to occur in late April 1998, is subject to approval by DLB shareholders and other customary conditions. Certain shareholders of DLB, who collectively own approximately 78% of outstanding DLB common stock, have granted Chesapeake an irrevocable proxy to vote such shares in favor of the merger.

In November 1997, Chesapeake agreed to acquire Hugoton Energy Corporation, which was closed on March 10, 1998. Each share of Hugoton common stock was converted into the right to receive 1.3 shares of Chesapeake common stock, resulting in the issuance of approximately 25.8 million shares of Chesapeake common stock. Excluding transaction fees, this transaction was valued at approximately $326 million, including the assumption of $120 million in bank debt at closing. Hugoton owns approximately 246 Bcfe of proved reserves in addition to its portfolio of undeveloped mineral interests, gas gathering systems, probable and possible reserves and other corporate assets.

In December 1997, Chesapeake purchased from Pan East Petroleum Corp. ("Pan East"), a publicly-traded Canadian exploration and production company, 19.9% of Pan East's common stock for $22 million. The purpose of Chesapeake's investment was to assist Pan East in financing its share of the exploration, development and acquisition activities under a joint venture whereby Chesapeake has the right to participate as a non-operator with up to a 50% interest in all drilling activities and acquisitions made by Pan East during the two years ending December 31, 1999.

In December 1997, Chesapeake acquired AnSon Production Corporation ("AnSon"), a privately owned oil and gas producer that owned estimated proved reserves of 26 Bcfe, substantial undeveloped mineral interests, and a gas marketing subsidiary. Consideration for the AnSon acquisition was approximately $43 million, consisting of 3,792,724 shares of Chesapeake common stock and cash consideration remaining to be paid in accordance with the terms of the merger agreement.

In January 1998, Chesapeake entered into 40/60 alliance with Ranger Oil Limited ("Ranger") to jointly develop a 3.2 million acre area of mutual interest in the Helmet area of northeastern British Columbia. As part of the transaction, Chesapeake paid Ranger approximately $48 million to acquire 54 Bcfe of estimated proved reserves (100% natural gas), 160,000 net acres of leasehold, and 40% of Ranger's infrastructure in the area.

In February 1998, Chesapeake purchased the Mid-Continent properties of privately owned EnerVest Management Company, L.L.C. for $38 million. The primarily undeveloped properties are located in the Anadarko Basin of Oklahoma, are 90% natural gas and consist of 43 Bcfe of estimated proved reserves.

In March 1998, Chesapeake agreed to acquire all of the stock of MC Panhandle Corp., a wholly owned subsidiary of Occidental. Chesapeake has agreed to pay $105 million in cash for estimated proved reserves of approximately 108 Bcfe in the West Panhandle Field in Carson, Gray, Hutchinson and Moore Counties of the Texas Panhandle. The reserves are 100% natural gas, have an estimated reserve-to-production index of eight years, and are 85% proved developed producing. During 1997, the wells produced approximately 13 Bcf (36 MMcf of natural gas per day) net to Occidental's interest from 256 wells, of which all but two were operated by Occidental. Chesapeake will assume operations of the acquired wells and will own an average working interest and net revenue interest of 99.5% and 85.2%, respectively. The effective date of the transaction is January 1, 1998 with closing scheduled for late May 1998.

In March 1998, Chesapeake agreed to acquire the British Columbia properties of Sunoma Energy Corporation for $33 million. Virtually all of the 42 Bcfe of estimated reserves to be acquired are associated with wells operated by Ranger in the Helmet area. The properties are 98% natural gas, have an estimated reserves-to-production index of 10 years. The transaction has an effective date of January 1, 1998, and is scheduled to close in late April 1998.

In March 1998, Chesapeake agreed to acquire from Gothic Energy Corporation an estimated 22 Bcfe of proved natural gas reserves in the Arkoma Basin of Oklahoma for $20 million. Additionally, in conjunction with Chesapeake's agreement to purchase $50 million of Gothic's 12% preferred stock (with ten-year warrants to purchase 15% of Gothic's currently outstanding common stock for $0.01 per share), Chesapeake entered into a five year drilling and acquisitions participation agreement with Gothic. As part of the transactions, Gothic transferred to Chesapeake approximately 30 Bcfe of proved undeveloped reserves. The transaction has an effective date of January 1, 1998, and is scheduled to close in late April 1998.

In March 1998, Chesapeake agreed to acquire approximately 35 Bcfe of estimated proved reserves in the Mid-Continent Region from two parties for $34 million. The properties are 85% natural gas and have an estimated reserves-to-production index of 10 years. The transactions have an effective date of January 1, 1998, and are scheduled to close in May 1998.

DRILLING ACTIVITY

The following table sets forth the wells drilled by the Company during the periods indicated. In the table, "gross" refers to the total wells in which the Company has a working interest and "net" refers to gross wells multiplied by the Company's working interest therein.

	SIX MONTHS ENDED DECEMBER 31, 1997		YEAR ENDED JUNE 30, 1997		1996		1995	
	GROSS	NET	GROSS	NET	GROSS	NET	GROSS	NET
Development:								
Productive	55	24.4	90	55.0	111	49.5	133	42.6
Non-productive	1	.3	2	.2	4	1.6	5	2.8
Total	56	24.7	92	55.2	115	51.1	138	45.4
Exploratory:								
Productive	28	15.5	71	46.1	29	16.5	11	5.3
Non-productive	2	0.9	8	5.7	4	1.4	1	.7
Total	30	16.4	79	51.8	33	17.9	12	6.0

At December 31, 1997, the Company was drilling 13 gross (10.1 net) wells, of which one gross (one net) well has been successfully completed and 11 gross (9.1 net) wells are still being drilled or tested. The Company was also participating with minority interests in 19 non-operated wells being drilled at that date.

WELL DATA

At December 31, 1997, the Company had interests in approximately 1,113 (401.0 net) producing wells, of which 152 (68.6 net) were classified as primarily oil producing wells and 961 (332.4 net) were classified as primarily gas producing wells.

VOLUMES, REVENUE, PRICES AND PRODUCTION COSTS

The following table sets forth certain information regarding the production volumes, revenue, average prices received and average production costs associated with the Company's sale of oil and gas for the periods indicated:

	SIX MONTHS ENDED DECEMBER 31, 1997	YEAR ENDED JUNE 30, 1997	1996	1995
NET PRODUCTION:				
Oil (MBbl)	1,857	2,770	1,413	1,139
Gas (MMcf)	27,326	62,005	51,710	25,114
Gas equivalent (MMcfe)	38,468	78,625	60,190	31,947
OIL AND GAS SALES ($ IN 000'S):				
Oil	$ 34,523	$ 57,974	$ 25,224	$ 19,784
Gas	61,134	134,946	85,625	37,199
Total oil and gas sales	$ 95,657	$ 192,920	$ 110,849	$ 56,983
AVERAGE SALES PRICE:				
Oil ($ per Bbl)	$ 18.59	$ 20.93	$ 17.85	$ 17.36
Gas ($ per Mcf)	$ 2.24	$ 2.18	$ 1.66	$ 1.48
Gas equivalent ($ per Mcfe)	$ 2.49	$ 2.45	$ 1.84	$ 1.78
OIL AND GAS COSTS ($ PER Mcfe):				
Production expenses and taxes	$ .27	$ .19	$ .14	$ .13
General and administrative	$ .15	$ .11	$ .08	$ .11
Depreciation, depletion and amortization of oil and gas properties	$ 1.57	$ 1.31	$ .85	$ .80

DEVELOPMENT, EXPLORATION AND ACQUISITION EXPENDITURES

The following table sets forth certain information regarding the costs incurred by the Company in its development, exploration and acquisition activities during the periods indicated:

	SIX MONTHS ENDED DECEMBER 31, 1997	YEAR ENDED JUNE 30, 1997	1996	1995
		($ IN THOUSANDS)		
Development costs	$ 120,628	$ 187,736	$ 138,188	$ 78,679
Exploration costs	40,534	136,473	39,410	14,129
Acquisition costs:				
Unproved properties	25,516	140,348	138,188	24,437
Proved properties	39,245	--	24,560	--
Capitalized internal costs	2,435	3,905	1,699	586
Proceeds from sale of leasehold, equipment and other	(1,861)	(3,095)	(6,167)	(11,953)
Total	$ 226,497	$ 465,367	$ 335,878	$ 105,878

ACREAGE

The following table sets forth as of December 31, 1997 the gross and net acres of both developed and undeveloped oil and gas leases which the Company holds. "Gross" acres are the total number of acres in which the Company owns a working interest. "Net" acres refer to gross acres multiplied by the Company's fractional working interest. Acreage numbers are stated in thousands and do not include options for additional leasehold held by the Company, but not yet exercised.

	DEVELOPED		UNDEVELOPED		TOTAL DEVELOPED AND UNDEVELOPED	
	GROSS	NET	GROSS	NET	GROSS	NET
Mid-Continent Region	234	75	328	143	562	218
Austin Chalk Trend	183	109	1,576	1,188	1,759	1,297
Other areas	81	52	1,609	1,005	1,690	1,057
Total	498	236	3,513	2,336	4,011	2,572

MARKETING

The Company's oil production is sold under market sensitive or spot price contracts. The Company's natural gas production is sold to purchasers under varying percentage-of-proceeds and percentage-of-index contracts. By the terms of these contracts, the Company receives a percentage of the resale price received by the purchaser for sales of residue gas and natural gas liquids recovered after gathering and processing the Company's gas. The residue gas and natural gas liquids sold by these purchasers are sold primarily based on spot market prices. The revenue received by the Company from the sale of natural gas liquids is included in natural gas sales. During the Transition Period, the following three customers individually accounted for 10% or more of the Company's total oil and gas sales:

	AMOUNT ($ IN THOUSANDS THOUSANDS)	PERCENT OF OIL AND GAS SALES
Aquila Southwest Pipeline Corporation	$20,138	21%
Koch Oil Company	18,594	19
GPM Gas Corporation	12,610	13

Management believes that the loss of any of the above customers would not have a material adverse effect on the Company's results of operations or its financial position.

Chesapeake Energy Marketing, Inc. ("CEMI") and AnSon Gas Marketing ("AGM") both wholly-owned subsidiaries, provide oil and natural gas marketing services including commodity price structuring, contract administration and nomination services for the Company, its partners and other oil and natural gas producers in the geographical areas in which the Company is active.

HEDGING ACTIVITIES

Periodically the Company utilizes hedging strategies to hedge the price of a portion of its future oil and gas production. These strategies include (1) swap arrangements that establish an index-related price above which the

Company pays the counterparty and below which the Company is paid by the counterparty, (2) the purchase of index-related puts that provide for a "floor" price below which the counterparty pays the Company the amount by which the price of the Commodity is below the contracted floor, (3) the sale of index-related calls that provide for a "ceiling" price above which the Company pays the counterparty the amount by which the price of the commodity is above the contracted ceiling, and (4) basis protection swaps, which are arrangements that guarantee the price differential of oil or gas from a specified delivery point or points. Results from hedging transactions are reflected in oil and gas sales to the extent related to the Company's oil and gas production. The Company only enters into hedging transactions related to the Company's oil and gas production volumes or CEMI and AGM physical purchase or sale commitments.

As of December 31, 1997, the Company had the following oil swap arrangements for periods after December 1997:

MONTHS	VOLUME (BBLS)	NYMEX-INDEX STRIKE PRICE (PER BBL)
January through June 1998	724,000	$19.82

After year-end 1997, the Company entered into oil swap arrangements to cancel the effect of the swaps at a price of $18.85 per Bbl.

As of December 31, 1997, the Company had the following gas swap arrangements for periods after December 1997:

MONTHS	VOLUME (MMBTU)	HOUSTON SHIP CHANNEL INDEX STRIKE PRICE (PER MMBTU)
April 1998	600,000	$2.300
May 1998	620,000	2.215

The Company received $1.3 million as a premium for calls sold for January and February 1998 volumes of 2,480,000 MMBtu and 2,240,000 MMBtu, respectively. The January calls expired on December 31, 1997, the February calls expired on January 31, 1998, and the associated premiums will be recognized as income during the corresponding months of production.

The Company has also entered into the following collar transactions:

MONTHS	VOLUME (MMBTU)	NYMEX DEFINED HIGH STRIKE PRICE	NYMEX DEFINED LOW STRIKE PRICE
March 1998	1,240,000	$2.69	$2.33
April 1998	1,200,000	2.48	2.11

These transactions require that the Company pay the counterparty if NYMEX exceeds the defined high strike price and that the counterparty pay the Company if NYMEX is less than the defined low strike price.

The Company entered into a curve lock for 4.9 Bcf of gas which allows the Company the option to hedge April 1999 through November 1999 gas based upon a negative $0.285 differential to December 1998 gas any time between the strike date and December 1998. A curve lock is a commodity swap arrangement that establishes, or hedges, a price differential between one commodity contract period and another. In markets where the forward curve is typically negatively sloped (near-term prices exceed deferred prices), an upward sloping price curve allows hedgers to lock in a deferred forward sale at a higher premium to a more prompt swap by a curve lock. For example, in the crude oil market, which typically has a negatively sloped price curve, it may be possible for a hedger to lock in a price relationship in which its deferred crude oil is sold at a premium to a prompter swap, because the price curve is upwardly sloping in the future. The expectation of the hedger is that either the market will return to its historically negatively sloped price curve, or that prices generally will increase and the curve lock swap will allow it to realize a premium price for the deferred versus the more prompt price.

Gains or losses on crude oil and natural gas hedging transactions are recognized as price adjustments in the month of related production. The Company estimates that had all of the crude oil and natural gas swap agreements in effect for production periods beginning January 1, 1998 terminated on December 31, 1997, based on the closing prices for NYMEX futures contracts as of that date, the Company would have received a net amount of approximately $1.1 million from the counterparty which would have represented the "fair value" at that date. These agreements were not terminated.

CEMI periodically enters into various hedging transactions designed to hedge against physical purchase commitments made by CEMI. Gains or losses on these transactions are recorded as adjustments to Oil and Gas Marketing Sales in the consolidated statements of operations and are not considered by management to be material.

RISK FACTORS

Concentration of Unevaluated Leasehold in Louisiana

Chesapeake's future performance will be affected by the results from the development of its existing proved undeveloped reserves and unevaluated leasehold, including the Louisiana Trend and the Tuscaloosa Trend. As of December 31, 1997, Chesapeake had an investment in total unevaluated and unproved leasehold of approximately $125 million, of which approximately $66 million was located in the Louisiana Trend and the Tuscaloosa Trend. Approximately 42%, or $98 million, of Chesapeake's 1998 drilling budget is associated with drilling, construction of production facilities and seismic activity in the Louisiana Trend and the Tuscaloosa Trend. Failure of the Company's drilling activities to achieve anticipated quantities of economically attractive reserves and production would have an adverse impact on Chesapeake's operations and financial results and could result in future full-cost ceiling writedowns.

Impairment of Asset Value

Chesapeake reported full-cost ceiling writedowns of $110 million and $236 million during the Transition Period and the fiscal year ended June 30, 1997, respectively. Beginning in the quarter ended September 30, 1997, Chesapeake reduced its drilling budget for the Austin Chalk in the Louisiana Trend overall and concentrated remaining Austin Chalk drilling activity in the Masters Creek area. In addition, Chesapeake began to pursue a strategy to replace and expand its oil and gas reserves through acquisitions as a compliment to its historical strategy of adding reserves through drilling. Chesapeake has also reduced its emphasis on acquiring unproved leasehold acreage to be developed through exploratory drilling. While these actions are intended to mitigate the higher risks associated with a growth strategy based on significant exploratory drilling, there can be no assurance that this change in strategy will result in enhanced future economic results or will prevent additional leasehold impairment and full-cost ceiling writedowns.

Since December 31, 1997, oil and gas prices have declined, with oil prices reaching ten-year lows in March 1998. In addition, the Company has completed several acquisitions based on expectations of higher oil and gas prices than those currently being received. Based on NYMEX oil prices of $16.50 per Bbl and NYMEX gas prices of $2.35 per Mcf in effect on March 25, 1998, and estimates of the Company's proved reserves as of December 31, 1997 (pro forma for the acquisitions completed during the quarter ended March 31, 1998), the Company estimates it will incur an additional full cost ceiling writedown of between $175 million and $200 million as of March 31, 1998. If this occurs, the Company will incur a substantial loss for the first quarter of 1998 which would further reduce shareholders' equity and reported earnings.

Following Chesapeake's announcement in late June 1997 of disappointing drilling results in the Louisiana Trend and a full-cost ceiling writedown, a number of purported class action lawsuits alleging violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder were filed against the Company and certain of its officers and directors. See "-Patent and Securities Litigation."

Risks of Acquisition Strategy

ACQUISITION RISKS

The Company's growth strategy includes the acquisition of oil and gas properties. There can be no assurance, however, that the Company will be able to identify attractive acquisition opportunities, obtain financing for acquisitions on satisfactory terms or successfully acquire identified targets, including the pending Acquisitions. Future acquisitions may be financed through the incurrence of additional indebtedness to the extent permitted under the terms of the Company's then existing indebtedness or through the issuance of capital stock.

Furthermore, there can be no assurance that competition for acquisition opportunities in the oil and gas industry will not escalate, thereby increasing the cost to the Company of making further acquisitions or causing the Company to refrain from making additional acquisitions.

The Company is subject to risks that properties acquired by it and estimates of value made with respect to the properties acquired (including those acquired and to be acquired in the Acquisitions) will not perform as expected and that the returns from such properties will not support the indebtedness incurred or the other consideration used to acquire, or the capital expenditures needed to develop, such properties. The addition of the properties acquired and to be acquired in the Acquisitions may result in additional full cost ceiling writedowns to the extent the Company's capitalized costs of such properties exceed the estimated present value of the related proved reserves. In addition, expansion of the Company's operations may place a significant strain on the Company's management, financial and other resources. The Company's ability to manage future growth will depend upon its ability to monitor operations, maintain effective costs and other controls and significantly expand the Company's internal management, technical and accounting systems, all of which will result in higher operating expenses. Any failure to expand these areas and to implement and improve such systems, procedures and controls in an efficient manner at a pace consistent with the growth of the Company's business could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the integration of acquired properties with existing operations will entail considerable expenses in advance of anticipated revenues and may cause substantial fluctuations in the Company's operating results. There can be no assurance that the Company will be able to successfully complete each of the pending Acquisitions, or to successfully integrate the properties acquired and to be acquired in the Acquisitions or any other businesses it may acquire.

The Company has also acquired proved reserves in Canada. In addition to the risks described above, the acquisition of assets in Canada has the additional risks associated with currency exchange and valuation, foreign regulation and taxation, and severe climate and operating conditions.

Need to Replace Reserves; Substantial Capital Requirements

As is customary in the oil and gas exploration and production industry, Chesapeake's future success depends upon its ability to find, develop or acquire additional oil and gas reserves that are economically recoverable. Unless Chesapeake successfully replaces the reserves that it produces through successful development, exploration or acquisition, Chesapeake's proved reserves will decline. Further, approximately 43% of Chesapeake's estimated proved reserves at December 31, 1997 (17% pro forma for the Acquisitions) were located in the Austin Chalk formation in Texas and Louisiana, where wells are characterized by rapid decline rates. Additionally, approximately 47% of Chesapeake's total estimated proved reserves at December 31, 1997 were undeveloped. Recovery of such reserves will require significant capital expenditures and successful drilling operations. There can be no assurance that Chesapeake can successfully find and produce reserves economically in the future.

Chesapeake has made and intends to make substantial capital expenditures in connection with the exploration and production of its oil and gas properties and the acquisition of proved reserves. Historically, Chesapeake has funded its capital expenditure through a combination of internally generated funds, equity issuance and long-term and short-term debt financing arrangements. Future cash flows are subject to a number of variables, such as the level of production from existing wells, prices of oil and gas, and Chesapeake's success in developing, acquiring and producing new reserves. If revenue were to decrease as a result of lower oil and gas prices, decreased production or increased costs, and Chesapeake's access to capital were limited, Chesapeake would have a reduced ability to replace its reserves or to maintain production at current levels, resulting in a decrease in production and revenue over time. If Chesapeake's cash flow from operations is not sufficient to fund its capital expenditure budget, there can be no assurance that additional debt or equity financing will be available to meet these requirements.

Substantial Indebtedness

As of December 31, 1997, and as a result of the loss incurred during the Transition Period, the Company's shareholders' equity was $280 million, versus long-term indebtedness of $509 million. Long-term indebtedness represented approximately 65% of total book capitalization. If the Company incurs additional full-cost ceiling writedowns, as anticipated, shareholders' equity will be further reduced. Standard & Poor's and Moody's Investors Service have recently indicated that the Company's credit ratings are under review with negative implications as a result of the Company's amount of indebtedness and full-cost ceiling writedowns.

The Company anticipates funding announced acquisitions and potential future acquisitions with a combination of commercial bank debt, long-term debt or

preferred or common equity. If, as a result of general market conditions, additional losses, reduced credit ratings or for any other reason, the Company is unable to issue additional securities or borrow from commercial banks, the Company's liquidity would be impaired and growth potential reduced resulting in reduced earnings or losses.

Patent and Securities Litigation

The Company and its officers and directors are defendants in certain purported class actions based on federal and state securities fraud claims. In addition, the Company is defending claims of patent infringement, tortious

interference with confidentiality contracts and misappropriation of proprietary information in another pending action. While no prediction can be made as to the outcome of these matters or the amount of damages that might be awarded, if any, an adverse result in any of them could be material to the Company. See Item 3. Legal Proceedings.

Governmental Regulation

Oil and gas operations are subject to various federal, state and local governmental regulations which may be changed from time to time in response to economic or political conditions. From time to time, regulatory agencies have imposed price controls and limitations on production in order to conserve supplies of oil and gas. In addition, the production, handling, storage, transportation and disposal of oil and gas, by-products thereof and other substances and materials produced or used in connection with oil and gas operations are subject to regulation under federal, state and local laws and regulations primarily relating to protection of human health and the environment. To date, expenditures related to complying with these laws and for remediation of existing environmental contamination have not been significant in relation to the results of operations of the Company. There can be no assurance that the trend of more expansive and stricter environmental legislation and regulations will not continue.

Competition

The Company operates in a highly competitive environment. The Company competes with major and independent oil and gas companies for the acquisition of desirable oil and gas properties, as well as for the equipment and labor required to develop and operate such properties. Many of these competitors have financial and other resources substantially greater than those of the Company.

Reliance on Key Personnel; Conflicts of Interest

The Company is dependent upon its Chief Executive Officer, Aubrey K. McClendon, and its Chief Operating Officer, Tom L. Ward. The unexpected loss of the services of either of these executive officers could have a detrimental effect on the Company. The Company maintains $20 million key man life insurance policies on the life of each of Messrs. McClendon and Ward.

Messrs. McClendon and Ward, together with another executive officer of the Company, have rights to participate in wells drilled by the Company on a quarter-by-quarter basis. Messrs. McClendon and Ward have elected to participate during all periods since the Company went public with individual interests of between 1.0% and 1.5%. Such participation may create interests which conflict with those of the Company.

Control by Certain Stockholders

At March 25, 1998, Aubrey K. McClendon, Tom L. Ward, the McClendon Children's Trust and the Ward Children's Trust beneficially owned an aggregate of 24,707,666 shares (including outstanding vested options), representing approximately 24% of the Company's outstanding Common Stock, and members of the Company's Board of Directors and senior management, including Messrs. McClendon and Ward and their respective children's trusts, beneficially owned an aggregate of 28,215,486 shares (including outstanding vested options), which represented approximately 27% of the Company's outstanding Common Stock. As a result, Messrs. McClendon and Ward, together with other officers and directors of the Company, are in a position to significantly influence matters requiring the vote or consent of the Company's shareholders.

REGULATION

General

Numerous departments and agencies, federal, state and local, issue rules and regulations binding on the oil and gas industry, some of which carry substantial penalties for failure to comply. The regulatory burden on the oil and gas industry increases the Company's cost of doing business and, consequently, affects its profitability.

Exploration and Production

The Company's operations are subject to various types of regulation at the federal, state and local levels. Such regulation includes requiring permits for the drilling of wells, maintaining bonding requirements in order to drill or operate wells and regulating the location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled, the plugging and abandoning of wells and the disposal of fluids used or obtained in connection with operations. The Company's operations are also subject to various conservation regulations. These include the regulation of the size of drilling and spacing units and the density of wells which may be drilled and the unitization or pooling of oil and gas properties. In this regard, some states (such as Oklahoma) allow the forced pooling or integration of tracts to facilitate exploration while other states (such as Texas) rely on voluntary pooling of lands and leases. In areas where pooling is voluntary, it may be more difficult to form units and, therefore, more difficult to develop a prospect if the operator owns less than 100% of the leasehold. In addition, state conservation laws establish maximum rates of production from oil and gas wells, generally prohibit the venting or flaring of gas and impose certain requirements regarding the ratability of production. The effect of these regulations is to limit the amount of oil and gas the Company can produce from its wells and to limit the number of wells or the locations at which the Company can drill. The extent of any impact on the Company of such restrictions cannot be predicted.

Environmental and Occupational Regulation

General. The Company's activities are subject to existing federal, state and local laws and regulations governing environmental quality and pollution control. It is anticipated that, absent the occurrence of an extraordinary event, compliance with existing federal, state and local laws, rules and regulations concerning the protection of the environment and human health will not have a material effect upon the operations, capital expenditures, earnings or the competitive position of the Company. The Company cannot predict what effect additional regulation or legislation, enforcement policies thereunder and claims for damages for injuries to property, employees, other persons and the environment resulting from the Company's operations could have on its activities.

Activities of the Company with respect to the exploration, development and production of oil and natural gas are subject to stringent environmental regulation by state and federal authorities including the United States Environmental Protection Agency ("EPA"). Such regulation has increased the cost of planning, designing, drilling, operating and in some instances, abandoning wells. In most instances, the regulatory requirements relate to the handling and disposal of drilling and production waste products and waste created by water and air pollution control procedures. Although the Company believes that compliance with environmental regulations will not have a material adverse effect on operations or earnings, risks of substantial costs and liabilities are inherent in oil and gas operations, and there can be no assurance that significant costs and liabilities, including criminal penalties, will not be incurred. Moreover, it is possible that other developments, such as stricter environmental laws and regulations, and claims for damages for injuries to property or persons resulting from the Company's operations could result in substantial costs and liabilities.

Waste Disposal. The Company currently owns or leases, and has in the past owned or leased, numerous properties that for many years have been used for the exploration and production of oil and gas. Although the Company has utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed of or released on or under the properties owned or leased by the Company or on or under other locations where such wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose treatment and disposal or release of hydrocarbons or other wastes was not under the Company's control. State and federal laws applicable to oil and natural gas wastes and properties have gradually become more strict. Under such laws, the Company could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators) or property contamination (including groundwater contamination) or to perform remedial plugging operations to prevent future contamination.

The Company generates wastes, including hazardous wastes, that are subject to the federal Resource Conservation and Recovery Act ("RCRA") and comparable state statutes. The EPA and various state agencies have limited the disposal options for certain hazardous and nonhazardous wastes and are considering the adoption of

stricter disposal standards for nonhazardous wastes. Furthermore, certain wastes generated by the Company's oil and natural gas operations that are currently exempt from treatment as hazardous wastes may in the future be designated as hazardous wastes, and therefore be subject to considerably more rigorous and costly operating and disposal requirements.

Superfund. The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), also known as the "Superfund" law, imposes liability, without regard to fault or the legality of the original conduct, on certain classes of persons with respect to the release of a "hazardous substance" into the environment. These persons include the owner and operator of a site and persons that disposed of or arranged for the disposal of the hazardous substances found at a site. CERCLA also authorizes the EPA and, in some cases, third parties to take actions in response to threats to the public health or the environment and to seek to recover from responsible classes of persons the costs of such action. In the course of its operations, the Company may have generated and may generate wastes that fall within CERCLA's definition of "hazardous substances." The Company may also be or have been an owner of sites on which "hazardous substances" have been released. The Company may be responsible under CERCLA for all or part of the costs to clean up sites at which such wastes have been released. To date, however, neither the Company nor, to its knowledge, its predecessors or successors have been named a potentially responsible party under CERCLA or similar state superfund laws affecting property owned or leased by the Company.

Air Emissions. The operations of the Company are subject to local, state and federal regulations for the control of emissions of air pollution. Legal and regulatory requirements in this area are increasing, and there can be no assurance that significant costs and liabilities will not be incurred in the future as a result of new regulatory developments. In particular, regulations promulgated under the Clean Air Act Amendments of 1990 may impose additional compliance requirements that could affect the Company's operations. However, it is impossible to predict accurately the effect, if any, of the Clean Air Act Amendments on the Company at this time. The Company may in the future be subject to civil or administrative enforcement actions for failure to comply strictly with air regulations or permits. These enforcement actions are generally resolved by payment of monetary fines and correction of any identified deficiencies. Alternatively, regulatory agencies could require the Company to forego construction or operation of certain air emission sources.

OSHA. The Company is subject to the requirements of the federal Occupational Safety and Health Act ("OSHA") and comparable state statutes. The OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of the federal Superfund Amendment and Reauthorization Act and similar state statutes require the Company to organize information about hazardous materials used, released or produced in its operations. Certain of this information must be provided to employees, state and local governmental authorities and local citizens. The Company is also subject to the requirements and reporting set forth in OSHA workplace standards. The Company provides safety training and personal protective equipment to its employees.

OPA and Clean Water Act. Federal regulations require certain owners or operators of facilities that store or otherwise handle oil, such as the Company, to prepare and implement spill prevention control plans, countermeasure plans and facilities response plans relating to the possible discharge of oil into surface waters. The Oil Pollution Act of 1990 ("OPA") amends certain provisions of the federal Water Pollution Control Act of 1972, commonly referred to as the Clean Water Act ("CWA"), and other statutes as they pertain to the prevention of and response to oil spills into navigable waters. The OPA subjects owners of facilities to strict joint and several liability for all containment and cleanup costs and certain other damages arising from a spill, including, but not limited to, the costs of responding to a release of oil to surface waters. The CWA provides penalties for any discharges of petroleum product in reportable quantities and imposes substantial liability for the costs of removing a spill. State laws for the control of water pollution also provide varying civil and criminal penalties and liabilities in the case of releases of petroleum or its derivatives into surface waters or into the ground. Regulations are currently being developed under OPA and state laws concerning oil pollution prevention and other matters that may impose additional regulatory burdens on the Company. In addition, the CWA and analogous state laws require permits to be obtained to authorize discharges into surface waters or to construct facilities in wetland areas. With respect to certain of its operations, the Company is required to maintain such permits or meet general permit requirements. The EPA recently adopted regulations concerning discharges of storm water runoff. This program requires covered facilities to obtain individual permits, participate in a group permit or seek coverage under an EPA general permit. The Company believes that it will be able to obtain, or be included under, such permits, where necessary, with minor modifications to existing facilities and operations that would not have a material effect on the Company.

NORM. Oil and gas exploration and production activities have been identified as generators of concentrations of low-level naturally-occurring radioactive materials ("NORM"). NORM regulations have recently been adopted in several states. The Company is unable to estimate the effect of these regulations, although based upon the Company's preliminary analysis to date, the Company does not believe that its compliance with such regulations will have a material adverse effect on its operations or financial condition.

Safe Drinking Water Act. The Company's operations involve the disposal of produced saltwater and other nonhazardous oil-field wastes by reinjection into the subsurface. Under the Safe Drinking Water Act ("SDWA"), oil and gas operators, such as the Company, must obtain a permit for the construction and operation of underground Class II injection wells. To protect against contamination of drinking water, periodic mechanical integrity tests are often required to be performed by the well operator. The Company has obtained such permits for the Class II wells it operates. The Company also has disposed of wastes in facilities other than those owned by the Company (commercial Class II injection wells).

Toxic Substances Control Act. The Toxic Substances Control Act ("TSCA") was enacted to control the adverse effects of newly manufactured and existing chemical substances. Under the TSCA, the EPA has issued specific rules and regulations governing the use, labeling, maintenance, removal from service and disposal of PCB items, such as transformers and capacitors used by oil and gas companies. The Company may own such PCB items but does not believe compliance with TSCA has or will have a material adverse effect on the Company's operations or financial condition.

TITLE TO PROPERTIES

Title to properties is subject to royalty, overriding royalty, carried, net profits, working and other similar interests and contractual arrangements customary in the oil and gas industry, to liens for current taxes not yet due and to other encumbrances. As is customary in the industry in the case of undeveloped properties, only cursory investigation of record title is made at the time of acquisition. Drilling title opinions are usually prepared before commencement of drilling operations. From time to time, the Company's title to oil and gas properties is challenged through legal proceedings. The Company is routinely involved in litigation involving title to certain of its oil and gas properties, none of which management believes will be materially adverse to the Company, individually or in the aggregate.

OPERATING HAZARDS AND INSURANCE

The oil and gas business involves a variety of operating risks, including the risk of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards such as oil spills, gas leaks, ruptures or discharges of toxic gases, the occurrence of any of which could result in substantial losses to the Company due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. The Company's horizontal drilling activities involve greater risk of mechanical problems than conventional vertical drilling operations.

The Company maintains a $50 million oil and gas lease operator policy that insures the Company against certain sudden and accidental risks associated with drilling, completing and operating its wells. There can be no assurance that this insurance will be adequate to cover any losses or exposure to liability. The Company also carries comprehensive general liability policies and a $60 million umbrella policy. The Company and its subsidiaries carry workers' compensation insurance in all states in which they operate and a $35 million employment practice liability policy. While the Company believes these policies are customary in the industry, they do not provide complete coverage against all operating risks.

EMPLOYEES

The Company had 360 full-time employees as of December 31, 1997. No employees are represented by organized labor unions. The Company considers its employee relations to be good. The Company estimates that the number of full-time employees will increase by approximately 100 as the result of the Acquisitions.

FACILITIES

The Company owns 12 buildings totaling approximately 80,000 square feet and nine acres of land in an office complex in Oklahoma City that comprise its headquarters' offices. The Company also owns field offices in Lindsay and Waynoka, Oklahoma and leases office space in Wichita, Kansas, Oklahoma City, Oklahoma, College Station and Navasota, Texas, Lafayette, Louisiana and Calgary, Alberta, Canada. The Company plans to increase its office space within its Oklahoma City complex by constructing two buildings with approximately 90,000 aggregate square feet. This will allow the Company to consolidate the employees associated with the Acquisitions.

GLOSSARY

The terms defined in this section are used throughout this Form 10-K.

Bcf. Billion cubic feet.

Bcfe. Billion cubic feet of gas equivalent.

Bbl. One stock tank barrel, or 42 U.S. gallons liquid volume, used herein in reference to crude oil or other liquid hydrocarbons.

Btu. British thermal unit, which is the heat required to raise the temperature of a one-pound mass of water from 58.5 to 59.5 degrees Fahrenheit.

Commercial Well; Commercially Productive Well. An oil and gas well which produces oil and gas in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.

Developed Acreage. The number of acres which are allocated or assignable to producing wells or wells capable of production.

Development Well. A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.

Dry Hole; Dry Well. A well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.

Exploratory Well. A well drilled to find and produce oil or gas in an unproved area, to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir or to extend a known reservoir.

Farmout. An assignment of an interest in a drilling location and related acreage conditional upon the drilling of a well on that location.

Formation. A succession of sedimentary beds that were deposited under the same general geologic conditions.

Gross Acres or Gross Wells. The total acres or wells, as the case may be, in which a working interest is owned.

Horizontal Wells. Wells which are drilled at angles greater than 70 from vertical.

MBbl. One thousand barrels of crude oil or other liquid hydrocarbons.

MBtu. One thousand Btus.

Mcf. One thousand cubic feet.

Mcfe. One thousand cubic feet of gas equivalent.

MMBbl. One million barrels of crude oil or other liquid hydrocarbons.

MMBtu. One million Btus.

MMcf. One million cubic feet.

MMcfe. One million cubic feet of gas equivalent.

Net Acres or Net Wells. The sum of the fractional working interest owned in gross acres or gross wells.

Present Value. When used with respect to oil and gas reserves, present value means the estimated future gross revenue to be generated from the production of proved reserves, net of estimated production and future development costs, using prices and costs in effect at the determination date, without giving effect to non-property related expenses such as general and administrative expenses, debt service and future income tax expense or to depreciation, depletion and amortization, discounted using an annual discount rate of 10%.

Productive Well. A well that is producing oil or gas or that is capable of production.

Proved Developed Reserves. Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Proved Reserves. The estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

Proved Undeveloped Location. A site on which a development well can be drilled consistent with spacing rules for purposes of recovering proved undeveloped reserves.

Proved Undeveloped Reserves. Reserves that are expected to be recovered from new wells drilled to known reservoir on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

Royalty Interest. An interest in an oil and gas property entitling the owner to a share of oil or gas production free of costs of production.

Tcf. One trillion cubic feet.

Tcfe. One trillion cubic feet of gas equivalent.

Undeveloped Acreage. Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas regardless of whether such acreage contains proved reserves.

Working Interest. The operating interest which gives the owner the right to drill, produce and conduct operating activities on the property and a share of production.

ITEM 2. PROPERTIES

OIL AND GAS RESERVES

The tables below set forth information as of December 31, 1997 with respect to the Company's estimated net proved reserves, the estimated future net revenue therefrom and the present value thereof at such date. Williamson Petroleum Consultants, Inc. evaluated 100% of the Company's Texas and Louisiana oil and gas reserves, together representing approximately 46% of the Company's total proved reserves. Excluding the reserves acquired from AnSon, Porter Engineering Associates evaluated 100% of the Company's oil and gas reserves in Oklahoma, New Mexico and the Williston area, together representing approximately 48% of the Company's total proved reserves. Of the oil and gas reserves acquired from AnSon, 85% were evaluated by Netherland, Sewell & Associates, Inc. The remaining AnSon properties, which represented approximately 2% of total proved reserves for the Company at December 31, 1997, were evaluated internally by the Company's engineers. All estimates were prepared based upon a review of production histories and other geologic, economic, ownership and engineering data developed by the Company. The present value of estimated future net revenue shown is not intended to represent the current market value of the estimated oil and gas reserves owned by the Company.

ESTIMATED PROVED RESERVES AS OF DECEMBER 31, 1997	OIL (MBBL)	GAS (MMCF)	TOTAL (MMCFE)
Proved developed	10,087	178,082	238,604
Proved undeveloped	8,139	161,036	209,870
Total proved	18,226	339,118	448,474

ESTIMATED FUTURE NET REVENUE AS OF DECEMBER 31, 1997(a)	PROVED DEVELOPED	PROVED UNDEVELOPED	TOTAL PROVED
		($ IN THOUSANDS)	
Estimated future net revenue	$440,439	$274,659	$715,098
Present value of future net revenue	$306,368	$160,141	$466,509

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(a) Estimated future net revenue represents estimated future gross revenue to be generated from the production of proved reserves, net of estimated production and future development costs, using prices and costs in effect at December 31, 1997. The amounts shown do not give effect to non-property related expenses, such as general and administrative expenses, debt service and future income tax expense or to depreciation, depletion and amortization. The prices used in the external and internal reports yield average prices of $17.62 per barrel of oil and $2.29 per Mcf of gas.

The future net revenue attributable to the Company's estimated proved undeveloped reserves of $275 million at December 31, 1997, and the $160 million present value thereof, have been calculated assuming that the Company will expend approximately $153 million to develop these reserves through 2002. The amount and timing of these expenditures will depend on a number of factors, including actual drilling results, product prices and the availability of capital.

No estimates of proved reserves comparable to those included herein have been included in reports to any federal agency other than the Securities and Exchange Commission.

The Company's interest used in calculating proved reserves and the estimated future net revenue therefrom was determined after giving effect to the assumed maximum participation by other parties to the Company's farmout and participation agreements. The prices used in calculating the estimated future net revenue attributable to proved reserves do not reflect market prices for oil and gas production sold subsequent to December 31, 1997. There can be no assurance that all of the estimated proved reserves will be produced and sold at the assumed prices or that existing contracts will be honored or judicially enforced.

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond the control of the Company. The reserve data set forth herein represent only estimates. Reserve engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact way, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation

and judgment. As a result, estimates made by different engineers often vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of such estimates, and such revisions may be material. Accordingly, reserve estimates are often different from the actual quantities of oil and gas that are ultimately recovered. Furthermore, the estimated future net revenue from proved reserves and the present value thereof are based upon certain assumptions, including prices, future production levels and cost, that may not prove correct. Predictions about prices and future production levels are subject to great uncertainty, and the foregoing uncertainties are particularly true as to proved undeveloped reserves, which are inherently less certain than proved developed reserves and which comprise a significant portion of the Company's proved reserves. In the Transition Period and fiscal 1997, revisions to the Company's proved reserves contributed to a $110 million and a $236 million impairment of the Company's oil and gas properties, respectively. The uncertainties inherent in estimating quantities of proved reserves can also adversely impact acquisitions of proved reserves, since reserve estimates are used to arrive at acquisition value. See "Results of Operations -- Impairment of Oil and Gas Properties" in Item 7.

See Item 1 and Note 11 of Notes to Consolidated Financial Statements included in Item 8 for a description of the Company's primary and other operating areas, production and other information regarding its oil and gas properties.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to ordinary routine litigation incidental to its business. In addition, the following matters are pending.

Securities Litigation. On January 13, 1998, a consolidated class action complaint styled In re Chesapeake Energy Corporation Securities Litigation was filed in the U.S. District Court for the Western District of Oklahoma. It consolidated twelve pending purported class actions filed in August and September 1997. The action is brought on behalf of purchasers of the Company's common stock and common stock options between January 25, 1996 and June 27, 1997. The defendants are the Company and the following officers and directors: Aubrey K. McClendon, Tom L. Ward, Marcus C. Rowland, Shannon T. Self, Walter C. Wilson, Henry J. Hood, Steven C. Dixon, J. Mark Lester and Ronald A. Lefaive. The complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder.

The plaintiffs assert that the defendants made material misrepresentations and failed to disclose material facts about the success of the Company's exploration and drilling activities in the Louisiana Trend. The complaint alleges the lack of disclosure artificially inflated the price of the Company's common stock during the period beginning January 25, 1996 and ending on June 27, 1997, when the Company issued a press release announcing disappointing drilling results in the Louisiana Trend and a full-cost ceiling writedown to be reflected in its June 30, 1997 financial statements. The plaintiffs further allege that certain of the named individual defendants sold the Company's common stock during the class period when they knew or should have known adverse nonpublic information. The plaintiffs seek a determination that the suit is a proper class action and damages in an unspecified amount, together with interest and costs of litigation, including attorneys' fees. The Company and the individual defendants believe that these claims are without merit and intend to defend against them vigorously.

Bayard Drilling Technologies, Inc. The following purported class actions alleging violations of Sections 11, 12(a) (2) and 15 of the Securities Act of 1933 and (with respect to the cases filed in state court) Section 408 of the Oklahoma Securities Act have been filed against the Company and others on behalf of investors who purchased common stock of Bayard Drilling Technologies, Inc. ("Bayard") in its initial public offering on November 4, 1997.

Michael W. Kahn v. Bayard, et al. filed in the District Court for Oklahoma County, Oklahoma on January 14, 1998.

Diane Burkett, Julian Swadel and Robert T. Greenberg v. Bayard, et al. filed in the District Court for Oklahoma County, Oklahoma on February 2, 1998.

Tom Yuan v. Bayard, et al. filed in the U.S. District Court for the Western District of Oklahoma on February 3, 1998.

The defendants in these actions include officers and directors of Bayard who signed the registration statement, selling shareholders (including the Company) and underwriters of the offering. Total proceeds of the offering were $254 million, of which the Company received net proceeds of $90 million. Plaintiffs allege that the Company was a controlling person of Bayard by virtue of its ownership of 30.1% of Bayard's common stock outstanding prior to the offering, its prior financing relationship with Bayard involving terms allegedly favorable to the Company, its position as a customer of Bayard's drilling services under allegedly below-market terms, and the fact that Messrs. McClendon, Ward and Rowland, executive officers and directors of the Company, were formerly directors of Bayard.

Plaintiffs allege that the Bayard prospectus contained material omissions and misstatements relating to (i) the Company's financial "hardships", which purportedly caused the Company to coerce Bayard to proceed with the offering so that the Company could raise cash for itself and which impaired the Company's ability to continue providing Bayard with substantial drilling contracts, (ii) rising costs associated with Bayard's growth strategy and (iii) undisclosed pending related-party transactions between Bayard and third parties other than the Company. The alleged defective disclosures are claimed to have resulted in a decline in Bayard's share price following the public offering. Each plaintiff seeks a determination that the suit is a proper class action and damages in an unspecified amount or rescission, together with interest and costs of litigation, including attorneys' fees. The Company believes that these actions are without merit and intends to defend against them vigorously.

UPRC Patent Suit. On October 15, 1996, Union Pacific Resources Company ("UPRC") filed suit against the Company in the U.S. District Court for the Northern District of Texas, Fort Worth Division, alleging (a) infringement and inducing infringement of UPRC's claims to a patent for an invention involving a method of maintaining a borehole in a stratigraphic zone during drilling, (b) tortious interference with contracts between UPRC and certain of its former employees regarding the confidentiality of proprietary information of UPRC and (c) misappropriation of such proprietary information. UPRC's claims against the Company are based on services provided to the Company by a third party vendor controlled by former UPRC employees. UPRC is seeking injunctive relief, damages of an unspecified amount, including actual, enhanced, consequential and punitive damages, interest, costs and attorneys' fees. The Company believes that it has meritorious defenses to UPRC's allegations and has requested the court to declare the UPRC patent invalid. The Company has also filed a motion to construe UPRC's patent claims and various motions for summary judgment. While no prediction can be made as to the outcome of the matter or the amount of damages that might be awarded, if any, in reports filed in the proceeding, experts for UPRC claim that damages could be as much as $18 million while Company experts state that the amount should not exceed $25,000, in each case based on the expert's view of a reasonable royalty for use of the patent.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's annual meeting of shareholders was held on December 12, 1997. In addition to electing two directors, shareholders voted to amend the Company's Certificate of Incorporation to increase the authorized Common Stock to 250,000,000 shares.

In the election of directors, Breene M. Kerr received 62,066,255 votes for election and 4,630 shares withheld from voting. Walter C. Wilson received 62,047,653 votes for election and 23,232 shares withheld from voting. The proposal to amend the Company's Certificate of Incorporation to increase the authorized Common Stock was approved by a vote of 45,368,421 shares for, representing 64% of the outstanding shares of Common Stock, 5,471,569 shares voted against the proposal, 81,005 shares abstained from voting and 11,731,261 shares were broker non-votes.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF COMMON STOCK

The Common Stock trades on the New York Stock Exchange under the symbol "CHK". The following table sets forth, for the periods indicated, the high and low sales prices per share (adjusted for 3-for-2 stock splits on December 15, 1995 and June 28, 1996 and a 2-for-1 stock split on December 31, 1996) of the Common Stock as reported by the New York Stock Exchange:

	COMMON STOCK	
	HIGH	LOW
Fiscal year ended June 30, 1996:		
First Quarter	$ 7.28	$ 4.53
Second Quarter	11.08	6.20
Third Quarter	16.50	10.67
Fourth Quarter	30.38	15.50
Fiscal year ended June 30, 1997:		
First Quarter	34.00	21.00
Second Quarter	34.13	25.69
Third Quarter	31.50	19.88
Fourth Quarter	22.38	9.25
Transition Period ended December 31, 1997:		
First Quarter	11.50	6.31
Second Quarter	13.44	6.81

At March 25, 1998 there were 745 holders of record of Common Stock and approximately 27,000 beneficial owners.

DIVIDENDS

Since July 1997, the Company has paid quarterly dividends of $0.02 per common share. The payment of future cash dividends, if any, will be reviewed periodically by the Board of Directors and will depend upon, among other things, the Company's financial condition, funds from operations, the level of its capital and development expenditures, its future business prospects and any contractual restrictions.

Certain of the Indentures governing the Company's outstanding Senior Notes contain certain restrictions on the Company's ability to declare and pay dividends. Under the Indentures, the Company may not pay any cash dividends in respect of its Common Stock if (i) a default or an event of default has occurred and is continuing at the time of or immediately after giving effect to the dividend payment, (ii) the Company would not be able to incur at least $1 of additional indebtedness under the terms of the Indentures, or (iii) immediately after giving effect to the dividend payment, the aggregate of all Restricted Payments (as defined) declared or made after the respective issue dates of the notes exceeds the sum of specified income, proceeds from the issuance of stock and debt by the Company and other amounts from the quarter in which the respective note issuances occurred to the quarter immediately preceding the date of the dividend payment.

ISSUANCE OF COMMON STOCK

On December 16, 1997, the Company issued 3,792,724 shares of Common Stock to the shareholder of AnSon as part of the consideration for the Company's acquisition of all of the outstanding stock of AnSon. See Item 1. "Business -- Recent and Pending Acquisitions". The shares were issued in a private transaction in reliance upon the exemption from registration afforded by Section 4 (2) of the Securities Act of 1933.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data of the Company for each of the five fiscal years ended June 30, 1997 and the Transition Period ended December 31, 1997. The data is derived from the Consolidated Financial Statements of the Company, including the Notes thereto, appearing elsewhere in this report. The data set forth in this table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements, including the Notes thereto included elsewhere in this report.

	SIX MONTHS ENDED DECEMBER 31,		YEAR ENDED JUNE 30,				
	1997	1996	1997	1996	1995	1994	1993
	($ IN THOUSANDS, EXCEPT PER SHARE DATA)						
STATEMENT OF OPERATIONS DATA:							
Revenues:							
Oil and gas sales	$ 95,657	$ 90,167	$ 192,920	$ 110,849	$ 56,983	$ 22,404	$ 11,602
Oil and gas marketing sales	58,241	30,019	76,172	28,428	--	--	--
Oil and gas service operations	--	--	--	6,314	8,836	6,439	5,526
Interest and other	78,966	2,516	11,223	3,831	1,524	981	880
Total revenues	232,864	122,702	280,315	149,422	67,343	29,824	18,008
Costs and expenses:							
Production expenses and taxes	10,094	5,874	15,107	8,303	4,256	3,647	2,890
Oil and gas marketing expenses	58,227	29,548	75,140	27,452	--	--	--
Oil and gas service operations	--	--	--	4,895	7,747	5,199	3,653
Impairment of oil and gas properties	110,000	--	236,000	--	--	--	--
Oil and gas depreciation, depletion and amortization	60,408	36,243	103,264	50,899	25,410	8,141	4,184
Depreciation and amortization of other assets	2,414	1,836	3,782	3,157	1,765	1,871	557
General and administrative	5,847	3,739	8,802	4,828	3,578	3,135	3,620
Provision for legal and other settlements	--	--	--	--	--	--	1,286
Interest and other	17,448	6,216	18,550	13,679	6,627	2,676	2,282
Total costs and expenses	264,438	83,456	460,645	113,213	49,383	24,669	18,472
Income (loss) before income taxes and extraordinary item	(31,574)	39,246	(180,330)	36,209	17,960	5,155	(464)
Provision (benefit) for income taxes	--	14,325	(3,573)	12,854	6,299	1,250	(99)
Income (loss) before extraordinary item	(31,574)	24,921	(176,757)	23,355	11,661	3,905	(365)
Extraordinary item:							
Loss on early extinguishment of debt, net of applicable income taxes	--	(6,443)	(6,620)	--	--	--	--
Net income (loss)	$ (31,574)	$ 18,478	$(183,377)	$ 23,355	$ 11,661	$ 3,905	$ (365)
Earnings (loss) per common share basic:							
Income (loss) before extraordinary item	$ (0.45)	$ 0.40	$ (2.69)	$ 0.43	$ 0.22	$ 0.08	$ (0.02)
Extraordinary item	--	(0.10)	(0.10)	--	--	--	--
Net income (loss)	$ (0.45)	$ 0.30	$ (2.79)	$ 0.43	$ 0.22	$ 0.08	$ (0.02)
Earnings (loss) per common assuming dilution:							
Income (loss) before extraordinary item	$ (0.45)	$ 0.38	$ (2.69)	$ 0.40	$ 0.21	$ 0.08	$ (0.02)
Extraordinary item	--	(0.10)	(0.10)	--	--	--	--
Net income (loss)	$ (0.45)	$ 0.28	$ (2.79)	$ 0.40	$ 0.21	$ 0.08	$ (0.02)
Cash dividends declared per common share	$ 0.04	$ --	$ 0.02	$ --	$ --	$ --	$ --
CASH FLOW DATA:							
Cash provided by (used in) operating activities	$ 139,157	$ 41,901	$ 84,089	$ 120,972	$ 54,731	$ 19,423	$ (1,499)
Cash used in investing activities	136,504	184,149	523,854	344,389	112,703	29,211	15,142
Cash provided by (used in) financing activities	(2,810)	231,349	512,144	219,520	97,282	21,162	20,802
BALANCE SHEET DATA (at end of period):							
Total assets	$ 952,784	$ 860,597	$ 949,068	$ 572,335	$ 276,693	$ 125,690	$ 78,707
Long-term debt, net of current maturities	508,992	220,149	508,950	268,431	145,754	47,878	14,051
Stockholders' equity	280,206	484,062	286,889	177,767	44,975	31,260	31,432

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Chesapeake's revenue, operating cash flow (exclusive of changes in working capital) and production continued to reach record levels during the six months ended December 31, 1997 (the "Transition Period"). However, continuing unfavorable exploration and production results, primarily in the Austin Chalk Trend, together with increases in drilling and equipment costs and declines in oil prices as of December 31, 1997, resulted in downward revisions in estimates of Chesapeake's proved oil and gas reserves and the related present value of the estimated future net revenues from the Company's proved reserves. The Company recorded a $110.0 million asset writedown and a net loss of $31.6 million during the Transition Period.

In response to the losses recorded in fiscal 1997 and the Transition Period, Chesapeake significantly revised its business strategy during the Transition Period. These revisions included (i) reducing the size and risk of its exploratory drilling program, especially in the Louisiana Trend, (ii) acquiring significant volumes of long-lived natural gas reserves, particularly in the Mid-Continent region of the U.S., and (iii) building a larger inventory of lower risk drilling opportunities through acquisitions and joint ventures. Further, the Company has reduced its capital expenditure budget for exploration and development to more closely match anticipated cash flow from operations.

As part of this revised strategy, the Company has acquired or is in the process of acquiring various proved oil and gas reserves through merger or through purchases of oil and gas properties. Since October 1997, the Company has announced 10 transactions totaling approximately 714 Bcfe of proved reserves (the "Acquisitions"). Of these transactions, one was closed in December 1997, three were closed in the first quarter of 1998, and six are pending. These acquisitions will have the effect of increasing oil and gas production volumes and revenues, decreasing DD&A per Mcfe, and increasing production expenses and interest expense during 1998.

In November 1997, Chesapeake received net proceeds of approximately $90 million from its sale of Bayard common stock in the initial public offering of Bayard. Chesapeake recognized a gain on the sale of its Bayard stock of $73.8 million.

During the Transition Period, the Company participated in 86 gross (41.1 net) wells, of which 49 gross wells were Company operated. A summary of the Company's drilling activities and capital expenditures by primary operating area is as follows ($ in thousands):

	GROSS WELLS	NET WELLS	CAPITAL EXPENDITURES		
			DRILLING	LEASEHOLD	TOTAL
Mid-Continent Region	18	11.8	$ 64,247	$ 2,741	$ 66,988
Austin Chalk Trend	45	16.0	92,524	10,465	102,989
All other areas	23	13.3	44,210	12,310	56,520
Total	86	41.1	$200,981	$ 25,516	$226,497

The Company's proved reserves increased 11% to an estimated 448 Bcfe at December 31, 1997, up 45 Bcfe from 403 Bcfe of estimated proved reserves at June 30, 1997 (see Note 11 of Notes to Consolidated Financial Statements in Item 8 and "Results of Operations -- Six Months Ended December 31, 1997 and 1996 -- Impairment of Oil and Gas Properties"). Due to the numerous uncertainties inherent in drilling for oil and gas, in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond the control of the Company, there can be no assurance that the Company's estimated proved reserves will not decrease in the future.

The Company's strategy for 1998 is to acquire proved oil and gas reserves, primarily in the Mid-Continent and in western Canada, and to continue developing oil and gas assets by drilling. The Company has reduced its capital expenditure budget for exploration and development drilling activities to approximately $225 million and has reduced the Austin Chalk Trend drilling component significantly. Furthermore, the Company has increased its use of 3-D seismic to assist in reducing exploratory risks and increasing economic returns from its drilling programs. The Company has conducted, participated in, or is actively pursuing more than 25 3-D seismic programs to evaluate the Company's acreage inventory.

The following table sets forth certain operating data of the Company for the periods presented:

	SIX MONTHS ENDED DECEMBER		YEAR ENDED JUNE 30,		
	1997	1996	1997	1996	1995
NET PRODUCTION DATA:					
Oil (MBbl)	1,857	1,116	2,770	1,413	1,139
Gas (MMcf)	27,326	30,095	62,005	51,710	25,114
Gas equivalent (MMcfe)	38,468	36,791	78,625	60,190	31,947
OIL AND GAS SALES ($ in 000's):					
Oil	$ 34,523	$ 24,418	$ 57,974	$ 25,224	$ 19,784
Gas	61,134	65,749	134,946	85,625	37,199
Total oil and gas sales	$ 95,657	$ 90,167	$ 192,920	$ 110,849	$ 56,983
AVERAGE SALES PRICE:					
Oil ($ per Bbl)	$ 18.59	$ 21.88	$ 20.93	$ 17.85	$ 17.36
Gas ($ per Mcf)	$ 2.24	$ 2.18	$ 2.18	$ 1.66	$ 1.48
Gas equivalent ($ per Mcfe)	$ 2.49	$ 2.45	$ 2.45	$ 1.84	$ 1.78
OIL AND GAS COSTS ($ per Mcfe):					
Production expenses and taxes	$ .27	$ .16	$ .19	$ .14	$ .13
General and administrative	$ .15	$ .10	$ .11	$ .08	$ .11
Depreciation, depletion and amortization	$ 1.57	$ .99	$ 1.31	$ .85	$ .80
NET WELLS DRILLED:					
Horizontal wells	27.2	34.3	75.7	42.0	28.5
Vertical wells	13.9	13.0	31.3	27.0	23.0
NET WELLS AT END OF PERIOD	401.0	210.3	270.1	187.0	96.4

RESULTS OF OPERATIONS

Six Months Ended December 31, 1997 and 1996

General. For the Transition Period, the Company realized a net loss of $31.6 million, or $0.45 per common share, on total revenues of $232.9 million. This compares to net income of $18.5 million, or $0.28 per common share, on total revenues of $122.7 million in the six months ended December 31, 1996 (the "Prior Period"). The loss in the Transition Period was caused by a $110.0 million asset writedown recorded under the full cost method of accounting, partially offset by a gain of $73.8 million from the sale of the Bayard stock. See "Impairment of Oil and Gas Properties".

Oil and Gas Sales. During the Transition Period, oil and gas sales increased 6% to $95.7 million versus $90.2 million for the Prior Period. The increase in oil and gas sales resulted primarily from growth in production volumes. For the Transition Period, the Company produced 38.5 Bcfe at a weighted average price of $2.49 per Mcfe, compared to 36.8 Bcfe produced in the Prior Period at a weighted average price of $2.45 per Mcfe.

The following table shows the Company's production by region for the Transition Period and the Prior Period:

	FOR THE SIX MONTHS ENDED DECEMBER 31,			
	1997		1996	
	(MMCFE)	PERCENT	(MMCFE)	PERCENT
Mid-Continent Region	8,852	23%	8,980	24%
Austin Chalk Trend	26,220	68	26,243	71
All other fields	3,396	9	1,568	5
Total production	38,468	100%	36,791	100%

Natural gas production represented approximately 71% of the Company's total production volume on an equivalent basis in the Transition Period, compared to 82% in the Prior Period. This decrease in gas production as a percentage of total production was primarily the result of new production in the Louisiana Trend, which tends to produce more oil than gas.

For the Transition Period, the Company realized an average price per barrel of oil of $18.59, compared to $21.88 in the Prior Period. Gas price realizations increased slightly from $2.18 per Mcf in the Prior Period to $2.24 per Mcf in the Transition Period. The Company's hedging activities resulted in decreases in oil and gas revenues of $4.3 million and $7.1 million in the Transition Period and Prior Period, respectively. Oil prices received in the first quarter of 1998 are significantly below prices realized in the Transition Period, which has the effect of reducing oil revenues and decreasing earnings.

Oil and Gas Marketing Sales. The Company realized $58.2 million in oil and gas marketing sales for third parties in the Transition Period, with corresponding oil and gas marketing expenses of $58.2 million. This compares to sales of $30.0 million, expenses of $29.5 million, and a margin of $0.5 million in the Prior Period.

Interest and Other. Interest and other revenues for the Transition Period were $79.0 million compared to $2.5 million in the Prior Period. During the Transition Period, the Company realized a gain on the sale of its Bayard common stock of $73.8 million, the most significant component of interest and other revenues.

Production Expenses and Taxes. Production expenses and taxes, which include lifting costs, production taxes and excise taxes, increased to $10.1 million in the Transition Period, compared to $5.9 million in the Prior Period. These increases were primarily the result of increased operating costs and increased production. On a unit of production basis, production expenses and taxes increased to $0.27 per Mcfe compared to $0.16 per Mcfe in the Prior Period. The Company expects that production expenses and taxes per Mcfe will increase in 1998, primarily as the result of completed and anticipated acquisitions that generally have higher associated lifting costs per unit than the Company's historical production.

Impairment of Oil and Gas Properties. The Company utilizes the full cost method to account for its investment in oil and gas properties. Under this method, all costs of acquisition, exploration and development of oil and gas reserves (including such costs as leasehold acquisition costs, geological and geophysical expenditures, certain capitalized internal costs, dry hole costs and tangible and intangible development costs) are capitalized as incurred. These oil and gas property costs along with the estimated future capital expenditures to develop proved undeveloped reserves are depleted and charged to operations using the unit-of-production method based on the ratio of current production to proved oil and gas reserves as estimated by the Company's independent engineering consultants and Company engineers. Costs directly associated with the acquisition and evaluation of unproved properties are excluded from the amortization computation until it is determined whether or not proved reserves can be assigned to the property or whether impairment has occurred. To the extent that capitalized costs of oil and gas properties, net of accumulated depreciation, depletion and amortization and related deferred income taxes, exceed the discounted future net revenues of proved oil and gas properties, such excess costs are charged to operations.

The Company incurred an impairment of oil and gas properties charge of $110 million for the Transition Period. This writedown was caused by several factors, including oil prices declining from $18.38 at June 30, 1997 to $17.62 at December 31, 1997, and drilling and completion costs continuing to escalate during the Transition Period. Higher costs caused the Company's capital spending to exceed budgeted amounts during the Transition Period and also increased the estimated future capital expenditures to be incurred to develop the Company's proved undeveloped reserves. The Company's results from wells completed during the Transition Period in the Louisiana Trend continued to be inconsistent and production performance from various properties in the Navasota River and Independence areas were lower than projected at June 30, 1997. As a result of the above factors, the Company recorded a downward revision to its proved reserves of 38 net Bcfe in the Austin Chalk Trend as of December 31, 1997.

Excluding the purchase of additional leasehold, the Company incurred approximately $85 million in capital expenditures in the Louisiana Trend during the Transition Period, of which approximately $67 million were incurred in the Masters Creek area. Approximately $16 million of the drilling costs were incurred on Company operated wells that had not been completed at December 31, 1997.

In the Masters Creek area, the Company completed operations on 11 wells during the Transition Period. Although 10 of the 11 wells were commercially productive, the drilling costs incurred through December 31, 1997

of approximately $58 million for the 10 wells were higher than anticipated and assigned reserves were lower than expected. The lower reserve quantities were due in part to lower oil prices at December 31, 1997. In addition, the Company transferred approximately $11 million of previously unevaluated leasehold costs from all areas of the Louisiana Trend to the amortization base of the full cost pool during the Transition Period.

In connection with the Company's acquisition of AnSon in December 1997, which was accounted for using the purchase method, the purchase price of approximately $43 million was allocated to the fair value of assets acquired. Based upon reserve estimates as of December 31, 1997, the portion of the purchase price which was allocated to evaluated oil and gas properties exceeded the associated discounted future net revenues from AnSon's estimated proved reserves by approximately $14 million.

Since December 31, 1997, oil and gas prices have declined, with oil prices reaching ten-year lows in March 1998. In addition, the Company has completed several acquisitions based on expectations of higher oil and gas prices than those currently being received. Based on NYMEX oil prices of $16.50 per Bbl and NYMEX gas prices of $2.35 per Mcf in effect on March 25, 1998, and estimates of the Company's proved reserves as of December 31, 1997 (pro forma for the acquisitions completed during the quarter ended March 31, 1998), the Company estimates it will incur an additional full cost ceiling writedown of between $175 million and $200 million as of March 31, 1998. If this occurs, the Company will incur a substantial loss for the first quarter of 1998 which would further reduce shareholders' equity.

Oil and Gas Depreciation, Depletion and Amortization. Depreciation, depletion and amortization ("DD&A") of oil and gas properties for the Transition Period was $60.4 million, $24.2 million higher than the Prior Period's expense of $36.2 million. The expense in the Transition Period was computed prior to the writedown from the Impairment of oil and gas properties charge. The average DD&A rate per Mcfe, which is a function of capitalized costs, future development costs, and the related underlying reserves in the periods presented, increased to $1.57 in the Transition Period compared to $0.99 in the Prior Period. The Company's DD&A rate in the future will be a function of the results of future acquisition, exploration, development and production costs and results, and asset writedowns, if any. The Company's DD&A rate is expected to be positively affected as the result of the acquisitions completed and pending.

Depreciation and Amortization of Other Assets. Depreciation and amortization ("D&A") of other assets increased to $2.4 million in the Transition Period, compared to $1.8 million in the Prior Period. This increase was caused by increased investments in depreciable buildings and equipment and increased amortization of debt issuance costs as a result of the issuance of Senior Notes in March 1997. The Company anticipates an increase in D&A in 1998 as a result of higher building depreciation expense on the Company's corporate offices.

General and Administrative. General and administrative ("G&A") expenses, which are net of capitalized internal payroll and non-payroll expenses (see Note 11 of Notes to Consolidated Financial Statements), were $5.8 million in the Transition Period, up 56% from $3.7 million in the Prior Period. The increase in the Transition Period compared to the Prior Period results primarily from increased personnel expenses required by the Company's growth and industry wage inflation. The Company capitalized $2.4 million of internal costs in the Transition Period directly related to the Company's oil and gas exploration and development efforts, compared to $1.1 million in the Prior Period. The Company anticipates that G&A costs for 1998 will continue to increase as the result of industry wage inflation, legal fees associated with the UPRC and shareholder litigation, and increases in employment due to the completed and pending acquisitions.

Interest and Other. Interest and other expense increased to $17.4 million in the Transition Period, compared to $6.2 million in the Prior Period. The increase was due primarily to the issuance of $300 million of Senior Notes in March 1997. In addition to the interest expense reported, the Company capitalized $5.1 million of interest during the Transition Period, compared to $7.6 million capitalized in the Prior Period.

Provision (Benefit) for Income Taxes. The Company recorded no income taxes for the Transition Period, compared to income tax expense of $14.3 million in the Prior Period, before consideration of the $3.7 million tax benefit associated with the extraordinary loss from the early extinguishment of debt.

At December 31, 1997, the Company had a net operating loss carryforward of approximately $337 million for regular federal income taxes which will expire in future years beginning in 2007. Management believes that it

cannot be demonstrated at this time that it is more likely than not that the deferred income tax assets, comprised primarily of the net operating loss carryforward, will be realizable in future years, and therefore a valuation allowance of $77.9 million has been recorded. No deferred tax benefit related to the exercise of employee stock options was allocated to additional paid-in capital in the Transition Period. The Company does not expect to record any net income tax expense in 1998 based on information available at this time.

Fiscal Years Ended June 30, 1997, 1996, 1995

General. For the fiscal year ended June 30, 1997, the Company realized a net loss of $183.4 million, or $2.79 per common share, on total revenues of $280.3 million. This compares to net income of $23.4 million, or $0.40 per common share, on total revenues of $149.4 million in 1996, and net income of $11.7 million, or $0.21 per common share, on total revenues of $67.3 million in fiscal 1995. The loss in fiscal 1997 resulted from a $236 million asset writedown recorded in the fourth quarter under the full cost method of accounting. See "--Impairment of Oil and Gas Properties".

Oil and Gas Sales. During fiscal 1997, oil and gas sales increased 74% to $192.9 million versus $110.8 million for fiscal 1996 and 238% from the fiscal 1995 amount of $57.0 million. The increase in oil and gas sales resulted primarily from strong growth in production volumes and significantly higher average oil and gas prices. For fiscal 1997, the Company produced 78.6 Bcfe at a weighted average price of $2.45 per Mcfe, compared to 60.2 Bcfe produced in fiscal 1996 at a weighted average price of $1.84 per Mcfe, and 31.9 Bcfe produced in fiscal 1995 at a weighted average price of $1.78 per Mcfe. This represents production growth of 31% for fiscal 1997 compared to fiscal 1996 and 146% compared to fiscal 1995.

The following table shows the Company's production by region for fiscal 1997 and fiscal 1996:

	For the Year Ended June 30,			
	1997		1996	
	(MMcfe)	Percent	(MMcfe)	Percent
Mid-Continent Region.....	17,370	22%	10,420	17%
Austin Chalk Trend.....	57,377	73	47,234	78
Other fields	3,878	5	2,536	5
Total Production....	78,625	100%	60,190	100%

Natural gas production represented approximately 79% of the Company's total production volume on an equivalent basis in fiscal 1997. This compares to 86% in fiscal 1996 and 79% in fiscal 1995. This decrease in gas production as a percentage of total production in fiscal 1997 was the result of drilling in the Louisiana Trend, which tends to produce more oil than gas.

For fiscal 1997, the Company realized an average price per barrel of oil of $20.93, compared to $17.85 in fiscal 1996 and $17.36 in fiscal 1995. The Company markets its oil on monthly average equivalent spot price contracts and typically receives a premium to the price posted for West Texas Intermediate crude oil.

Gas price realizations increased from fiscal 1996 to 1997 from $1.66 per Mcf to $2.18 per Mcf, or 31%, generally as the result of market conditions. Gas prices in fiscal 1995 averaged $1.48 per Mcf. The Company's gas price realizations in fiscal 1997 were also higher due to the increase in Louisiana Trend gas production, which generally receives premium prices at least equivalent to Henry Hub indexes due to the high Btu content and favorable market location of the production.

The Company's hedging activities resulted in decreases in oil and gas revenues of $7.4 million, $5.9 million, and none in fiscal 1997, 1996 and 1995, respectively.

Oil and Gas Marketing Sales. In December 1995, the Company entered into the oil and gas marketing business by acquiring a subsidiary to provide natural gas marketing services, including commodity price structuring, contract administration and nomination services, for the Company, its partners and other oil and natural gas producers in geographical areas in which the Company is active. The Company realized $76.2 million in oil and gas marketing

sales for third parties in fiscal 1997, with corresponding oil and gas marketing expenses of $75.1 million, resulting in a gross margin of $1.1 million. This compares to sales of $28.4 million, expenses of $27.5 million, and a margin of $0.9 million in fiscal 1996. There were no comparable marketing activities in fiscal 1995.

Oil and Gas Service Operations. On June 30, 1996, Peak USA Energy Services, Ltd., a limited partnership ("Peak"), was formed by Peak Oilfield Services Company (a joint venture between Cook Inlet Region, Inc. and Nabors Industries, Inc.) and Chesapeake for the purpose of purchasing the Company's oilfield service assets and providing rig moving, transportation and related site construction services to the Company and others in the industry. The Company sold its service company assets to Peak for $6.4 million, and simultaneously invested $2.5 million in exchange for a 33.3% partnership interest in Peak. This transaction resulted in recognition of a $1.8 million pre-tax gain during the fourth fiscal quarter of 1996 (reported in Interest and other revenues). A deferred gain from the sale of service company assets of $0.9 million was recorded as a reduction in the Company's investment in Peak and is being amortized to income over the estimated useful lives of the Peak assets. The Company's investment in Peak is accounted for using the equity method, and resulted in $0.5 million of income being included in Interest and other revenues in fiscal 1997.

Revenues from oil and gas service operations were $6.3 million in fiscal 1996, down 28% from $8.8 million in fiscal 1995. The related costs and expenses of these operations were $4.9 million and $7.7 million for the two years ended June 30, 1996 and 1995 respectively. The gross profit margin of 22% in fiscal 1996 was up from the 12% margin in fiscal 1995. The gross profit margin derived from these operations is a function of drilling activities in the period, costs of materials and supplies and the mix of operations between lower margin trucking operations versus higher margin labor oriented service operations.

Interest and Other. Interest and other revenues for fiscal 1997 were $11.2 million compared to $3.8 million in fiscal 1996 and $1.5 million in fiscal 1995. During fiscal 1997, the Company realized $8.7 million in interest, $1.6 million of other investment income, $0.5 million from its investment in Peak, and $0.4 million in other income. During fiscal 1996, the Company realized $3.7 million of interest and other investment income and a $1.8 million gain related to the sale of certain service company assets, offset by a $1.7 million loss due to natural gas basis changes in April 1996 as a result of the Company's hedging activities. During 1995, the Company did not incur any such gains on sale of assets or basis losses.

Production Expenses and Taxes. Production expenses and taxes, which include lifting costs, production taxes and excise taxes, increased to $15.1 million in fiscal 1997, compared to $8.3 million in fiscal 1996 and $4.3 million in fiscal 1995. These increases on a year-to-year basis were primarily the result of increased production. On a unit production basis, production expenses and taxes increased to $0.19 per Mcfe, compared to $0.14 per Mcfe in fiscal 1996 and $0.13 per Mcfe in fiscal 1995. During fiscal 1996 and 1995, a high proportion of the Company's production was from the Giddings Field, much of which qualified for Texas severance tax exemptions.

Impairment of Oil and Gas Properties. Prior to January 1997, the Company had completed operations on one exploratory well in each of three separate areas outside Masters Creek in the Louisiana Trend. Between April 1997 and July 1997, the Company completed operations on 10 Company operated exploratory wells located outside Masters Creek in the Louisiana Trend that resulted in the addition of only 0.5 Bcfe of proved reserves. Cumulative well costs on these non-Masters Creek properties were approximately $43 million as of June 30, 1997. Of the ten wells, one was completed on April 15, 1997, one on May 3, 1997 and eight after June 1, 1997. Based upon this information and similar data which had become available from outside operated properties in these non-Masters Creek areas of the Louisiana Trend, management determined that a significant portion of its leasehold in the Louisiana Trend outside of Masters Creek was impaired. During the quarters ended March 31, 1997 and June 30, 1997, the Company transferred $7.6 million and $86.3 million, respectively, of non-Masters Creek Louisiana Trend leasehold costs to the amortization base of the full cost pool.

Oil and gas prices declined from $20.90 per Bbl and $2.41 per Mcf at June 30, 1996 to $18.38 per Bbl and $2.12 per Mcf at June 30, 1997. Drilling and equipment costs escalated rapidly in the fourth quarter of fiscal 1997 due primarily to higher day rates for drilling rigs, thus increasing the estimated future capital expenditures to be incurred to develop the Company's proved undeveloped reserves. The oil and gas price declines and the increased costs to

drill and equip wells caused the Company to eliminate 35 gross proved undeveloped locations in the Knox Field which contained an estimated 45 net Bcfe of proved undeveloped reserves. Similar factors combined with unfavorable drilling and production results eliminated approximately 93 Bcfe of proved reserves in the Giddings and Louisiana Trend areas.

In the Independence area of the Giddings Field of Texas, a single well completed in late March 1997, which the Company had estimated to contain 15.7 Bcfe of Company reserves at March 31, 1997, was significantly and adversely affected by another operator's offset well which damaged the reservoir and reduced the Company's estimated ultimate recovery to 8.0 Bcfe of reserves.

In late June 1997, management reviewed its March 31, 1997 internal estimates of proved reserves and related present value and, after giving effect to the fourth quarter 1997 drilling and production results, oil and gas prices, higher drilling and completion costs, and additional leasehold acquisition costs and delay rentals, determined that the Company had less reserve potential than had previously been estimated. As a result, management estimated that at June 30, 1997 the Company would have capitalized costs of oil and gas properties which would exceed its full cost ceiling by approximately $150 million to $200 million. On June 27, 1997, the Company issued a press release which included this estimate. Subsequently, based on the Company's final year-end estimates of its proved reserves and related estimated future net revenues, which took into account additional drilling and production results, management determined that as of June 30, 1997, its capitalized costs exceeded its full cost ceiling by approximately $236 million. No such writedown was experienced by the Company in fiscal 1996 or fiscal 1995.

Oil and Gas Depreciation, Depletion and Amortization. DD&A of oil and gas properties for fiscal 1997 was $103.3 million, $52.4 million higher than fiscal 1996's expense of $50.9 million, and $77.9 million higher than fiscal 1995's expense of $25.4 million. The expense in fiscal 1997 excluded the effects of the asset writedown. The average DD&A rate per Mcfe, which is a function of capitalized costs, future development costs, and the related underlying reserves in the periods presented, increased to $1.31 in fiscal 1997 compared to $0.85 in fiscal 1996 and $0.80 in fiscal 1995.

Depreciation and Amortization of Other Assets. D&A of other assets increased to $3.8 million in fiscal 1997, compared to $3.2 million in fiscal 1996 and $1.8 million in fiscal 1995. This increase in fiscal 1997 was caused by an increase in D&A as a result of increased investments in depreciable buildings and equipment and increased amortization of debt issuance costs as a result of the issuance of Senior Notes in May 1995, April 1996 and March 1997.

General and Administrative. G&A expenses, which are net of capitalized internal payroll and non-payroll expenses (see Note 11 of Notes to Consolidated Financial Statements), were $8.8 million in fiscal 1997, up 83% from $4.8 million in fiscal 1996 and up from $3.6 million in fiscal 1995. The increases in fiscal 1997 compared to fiscal 1996 and 1995 result primarily from increased personnel expenses required by the Company's growth and industry wage inflation. The Company capitalized $3.9 million of internal costs in fiscal 1997 directly related to the Company's oil and gas exploration and development efforts, compared to $1.7 million in 1996 and $0.6 million in 1995.

Interest and Other. Interest and other expense increased to $18.6 million in fiscal 1997 as compared to $13.7 million in 1996 and $6.6 million in fiscal 1995. Interest expense in the fourth quarter of fiscal 1997 was $8.7 million, reflecting the issuance of $300 million of Senior Notes in March 1997. In addition to the interest expense reported, the Company capitalized $12.9 million of interest during fiscal 1997, compared to $6.4 million capitalized in fiscal 1996 and $1.6 million in fiscal 1995.

Provision (Benefit) for Income Taxes. The Company recorded an income tax benefit of $3.6 million for fiscal 1997, before consideration of the $3.8 million tax benefit associated with the extraordinary loss from the early extinguishment of debt, compared to income tax expense of $12.9 million in 1996 and $6.3 million in 1995. All of the income tax expense in 1996 and 1995 was deferred due to tax net operating losses and carryovers resulting from the Company's drilling program.

The Company's loss before income taxes and extraordinary item of $180.3 million created a tax benefit for financial reporting purposes of $67.7 million. However, due to limitations on the recognition of deferred tax assets, the total tax benefit was reduced to $3.6 million.

At June 30, 1997, the Company had a net operating loss carryforward of approximately $300 million for regular federal income taxes which will expire in future years beginning in 2007. Management believed that it could not be demonstrated at that time that it was more likely than not that the deferred income tax assets, comprised primarily of the net operating loss carryforward, would be realizable in future years, and therefore a valuation allowance of $64.1 million was recorded in fiscal 1997. A deferred tax benefit related to the exercise of employee stock options of approximately $4.8 million was allocated directly to additional paid-in capital in 1997, compared to $7.9 million in 1996 and $1.2 million in fiscal 1995.

HEDGING

Periodically the Company utilizes hedging strategies to hedge the price of a portion of its future oil and gas production. These strategies include (1) swap arrangements that establish an index-related price above which the Company pays the counterparty and below which the Company is paid by the counterparty, (2) the purchase of index-related puts that provide for a "floor" price below which the counterparty pays the Company the amount by which the price of the commodity is below the contracted floor, (3) the sale of index-related calls that provide for a "ceiling" price above which the Company pays the counterparty the amount by which the price of the commodity is above the contracted ceiling, and (4) basis protection swaps, which are arrangements that guarantee the price differential of oil or gas from a specified delivery point or points. Results from hedging transactions are reflected in oil and gas sales to the extent related to the Company's oil and gas production. The Company only enters into hedging transactions related to the Company's oil and gas production volumes or CEMI and AGM physical purchase or sale commitments.

As of December 31, 1997, the Company had the following oil swap arrangements for periods after December 1997:

MONTH	VOLUME (BBLS)	NYMEX-INDEX STRIKE PRICE (PER BBL)
January through June 1998	724,000	$19.82

After year-end 1997, the Company entered into oil swap arrangements to cancel the effect of the swaps at a price of $18.85 per Bbl.

As of December 31, 1997, the Company had the following gas swap arrangements for periods after December 1997:

MONTHS	VOLUME (MMBTU)	HOUSTON SHIP CHANNEL INDEX STRIKE PRICE (PER MMBTU)
April 1998	600,000	$2.300
May 1998	620,000	$2.215

The Company received $1.3 million as a premium for calls sold for January and February 1998 volumes of 2,480,000 MMBtu and 2,240,000 MMBtu, respectively. The January calls expired on December 31, 1997, the February calls expired on January 31, 1998, and the associated premiums will be recognized as income during the corresponding months of production.

The Company has also entered into the following collar transactions:

MONTHS	VOLUME (MMBTU)	NYMEX DEFINED HIGH STRIKE PRICE	NYMEX DEFINED LOW STRIKE PRICE
March 1998	1,240,000	$2.69	$2.33
April 1998	1,200,000	$2.48	$2.11

These transactions require that the Company pay the counterparty if NYMEX exceeds the defined high strike price and that the counterparty pay the Company if NYMEX is less than the defined low strike price.

The Company entered into a curve lock for 4.9 Bcf of gas which allows the Company the option to hedge April 1999 through November 1999 gas based upon a negative $0.285 differential to December 1998 gas any time between the strike date and December 1998. A curve lock is a commodity swap arrangement that establishes, or hedges, a price differential between one commodity contract period and another. In markets where the forward curve is typically negatively sloped (near-term prices exceed deferred prices), an upward sloping price curve allows hedgers to lock in a deferred forward sale at a higher premium to a more prompt swap by a curve lock. For example, in the crude oil market, which typically has a negatively sloped price curve, it may be possible for a hedger to lock in a price relationship in which its deferred crude oil is sold at a premium to a prompter swap, because the price curve is upwardly sloping in the future. The expectation of the hedger is that either the market will return to its historically negatively sloped price curve, or that prices generally will increase and the curve lock swap will allow it to realize a premium price for the deferred versus the more prompt price.

Gains or losses on crude oil and natural gas hedging transactions are recognized as price adjustments in the month of related production. The Company estimates that had all of the crude oil and natural gas swap agreements in effect for production periods beginning January 1, 1998 terminated on December 31, 1997, based on the closing prices for NYMEX futures contracts as of that date, the Company would have received a net amount of approximately $1.1 million from the counterparty which would have represented the "fair value" at that date. These agreements were not terminated.

Periodically, CEMI enters into various hedging transactions designed to hedge against physical purchase commitments made by CEMI. Gains or losses on these transactions are recorded as adjustments to Oil and Gas Marketing Sales in the consolidated statements of operations and are not considered by management to be material.

LIQUIDITY AND CAPITAL RESOURCES

For the Six Months Ended December 31, 1997 and 1996

Cash Flows from Operating Activities. Cash provided by operating activities (inclusive of changes in components of working capital) increased to $139.2 million in the Transition Period, compared to $41.9 million in the Prior Period. The primary reason for the increase was significant changes in the components of current assets and liabilities, specifically $92 million of short-term investments which were converted into cash during the Transition Period. Cash provided by operating activities is expected to be a significant source for meeting the forecasted cash requirements for 1998.

Cash Flows from Investing Activities. Cash used in investing activities decreased to $136.5 million in the Transition Period, compared to $184.1 million in the Prior Period. This decrease in cash used in investing activities was due primarily to the $90.4 million received from the sale of the Company's investment in Bayard common stock during the Transition Period, offset by other investments. Approximately $189.8 million was expended by the Company in the Transition Period for development and exploration of oil and gas properties, as compared to $186.8 million in the Prior Period. In the Transition Period, other property and equipment additions were $27.0 million primarily as a result of its $11.9 million investment in the Louisiana Chalk Gathering System and Masters Creek Gas Plant as well as additional investments in its Oklahoma City office complex.

Cash Flows from Financing Activities. Cash used in financing activities was $2.8 million during the Transition Period, compared to cash provided by financing activities of $231.3 million during the Prior Period. The decrease was due primarily to the proceeds received from the issuance of common stock during the Prior Period of $288.1 million, which was partially offset by the net payments on long-term borrowings of $56.8 million during the Prior Period.

For the Fiscal Years Ended June 30, 1997, 1996 and 1995

Cash Flows from Operating Activities. Cash provided by operating activities (inclusive of changes in components of working capital) decreased to $84.1 million in fiscal 1997, compared to $121.0 million in fiscal 1996 and $54.7 million in fiscal 1995. The primary reason for the decrease from fiscal 1996 to 1997 was significant changes in the components of current assets and liabilities, specifically $102.9 million of short-term investments at June 30, 1997.

Cash Flows from Investing Activities. Significantly higher cash was used in fiscal 1997 for development, exploration and acquisition of oil and gas properties compared to fiscal 1996 and 1995. Approximately $524 million was expended by the Company in fiscal 1997 (net of proceeds from sale of leasehold, equipment and other), compared to $344 million in fiscal 1996. In fiscal 1995 the Company expended $113 million (net of proceeds from sale of leasehold, equipment and other). Net cash proceeds received by the Company for sales of oil and gas equipment, leasehold and other decreased to approximately $3.1 million in fiscal 1997, compared to $6.2 million in fiscal 1996 and $12.0 million in fiscal 1995. In fiscal 1997, other property and equipment additions were $34 million primarily as a result of its $16.8 million investment in the Louisiana Chalk Gathering System and Masters Creek Gas Plant as well as additional investments in its Oklahoma City office complex.

Cash Flows from Financing Activities. On December 2, 1996, the Company completed a public offering of 8,972,000 shares of Common Stock at a price of $33.63 per share resulting in net proceeds to the Company of approximately $288.1 million. Approximately $55.0 million of the proceeds was used to defease the Company's $47.5 million Senior Notes due 2001, and $11.2 million of the proceeds was used to retire all amounts outstanding under the Company's commercial bank credit facilities.

On March 17, 1997, the Company concluded the sale of $150 million of 7.875% Senior Notes due 2004 (the "7.875% Senior Notes"), and $150 million of 8.5% Senior Notes due 2012 (the "8.5% Senior Notes"), which offering resulted in net proceeds to the Company of approximately $292.6 million. The 7.875% Senior Notes were issued at 99.92% of par and the 8.5% Senior Notes were issued at 99.414% of par. The 7.875% Senior Notes and the 8.5% Senior Notes are redeemable at the option of the Company at any time at the redemption or make-whole prices set forth in the respective Indentures.

In fiscal 1996, cash flows from financing activities were $219.5 million, largely as the result of the issuance of 5,989,500 shares of Common Stock (net proceeds to the Company of approximately $99.4 million) and $120 million of 9.125% Senior Notes due 2006 (the "9.125% Senior Notes"). The Company may, at its option, redeem prior to April 15, 1999 up to $42 million principal amount of the 9.125% Senior Notes at 109.125% of the principal amount thereof from equity offering proceeds. The 9.125% Senior Notes are redeemable at the option of the Company at any time at the redemption or make- whole prices set forth in the Indenture.

Financial Flexibility and Liquidity

The Company had working capital of $64.2 million at December 31, 1997. In January 1998, the Company arranged a $500 million revolving credit facility with a group of commercial banks. The facility has an initial committed borrowing base of $200 million ($168 million until the acquisition of DLB Oil & Gas, Inc. is consummated), of which $120 million was used to pay off bank debt assumed in the acquisition of Hugoton Energy Corporation on March 10, 1998 and the remainder is anticipated to be used for other acquisitions. The borrowing base can be expanded as other acquisitions create collateral value. Borrowings under the facility are secured by CAC's pledge of its subsidiaries' capital stock and bear interest currently at a rate equal to the Eurodollar rate plus 1.5%.

The borrower under this facility is Chesapeake Acquisition Corporation ("CAC"), a wholly-owned subsidiary of the Company. CAC is an "unrestricted subsidiary" under the terms of the Company's Senior Note Indentures and is not a guarantor of the senior note indebtedness. The Company is not a guarantor of the revolving credit facility.

The Senior Note Indentures contain various restrictions for the Company and its restricted subsidiaries to incur additional indebtedness. As of December 31, 1997, the Company estimates that commercial bank indebtedness of $75 million could have been incurred within these restrictions. This restriction does not apply to borrowings incurred by CAC and other unrestricted subsidiaries.

Debt ratings for the Senior Notes are Ba3 by Moody's Investors Service and BB- by Standard & Poor's Corporation as of March 25, 1998, although both have recently placed the Company on review with negative implications. The Company's long-term debt represented approximately 65% of total capital at December 31, 1997. There are no scheduled principal payments required on any of the Senior Notes until June 2002.

The Company believes it has adequate resources, including budgeted cash flow from operations, to fund its capital expenditure budget for exploration and development activities during 1998, which is currently estimated to be approximately $235 million. However, continued low oil prices or unfavorable drilling results could cause the Company to further reduce its drilling program, which is largely discretionary. Additional acquisitions, if any, beyond the announced acquisitions will be funded by a combination of commercial bank debt and/or the issuance of additional public debt or equity securities. If these additional resources are not available, the Company may not be able to successfully pursue its revised 1998 business strategy.

YEAR 2000

Year 2000 issues result from the inability of computer programs or computerized equipment to accurately calculate, store or use a date subsequent to December 31, 1999. Although the erroneous date can be interpreted in a number of different ways typically the year 2000 is interpreted by the computer as the year 1900. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business.

The Company has completed an assessment of its core financial and operational software systems and has found them either already in compliance or the necessary steps to bring them into compliance have been identified. These tasks are scheduled for completion by December 31, 1998. The Company believes that the successful completion of these tasks will mitigate any critical Year 2000 issues. However, if these tasks are not completed by year-end 1999, the Year 2000 issue could have a material impact on the Company's ability to meet financial and reporting requirements. It should not impact the Company's ability to continue exploration, drilling or production activities.

Assessment of other less critical software systems and various types of equipment is continuing and should be completed by September 1998. The Company believes that the potential impact, if any, of these systems not being Year 2000 compliant will at most require employees to manually complete otherwise automated tasks or calculations.

Following the completion of the aforementioned assessment, the Company will initiate formal communication with its significant suppliers, business partners and customers to determine the extent to which the Company is vulnerable to those third parties' failure to correct their own Year 2000 issues. However, there can be no guarantee that the systems of other companies on which the Company's systems rely will be timely converted, or that a failure to convert by another company, or a conversion that is incompatible with the Company's systems would not have a material adverse effect on the Company. The Company has determined it has no exposure to contingencies related to the Year 2000 issue for the products it has sold.

The Company will utilize both internal and external resources to complete tasks and perform testing necessary to address the Year 2000 issue. Completion of the Year 2000 project is based on management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

FORWARD LOOKING STATEMENTS

The information contained in this Form 10-K includes certain forward-looking statements. When used in this document, the words budget, budgeted, anticipate, expects, estimates, believes, goals or projects and similar expressions are intended to identify forward-looking statements. It is important to note that Chesapeake's actual

results could differ materially from those projected by such forward-looking statements. Important factors that could cause actual results to differ materially from those projected in the forward-looking statements include, but are not limited to, the following: production variances from expectations, volatility of oil and gas prices, the need to develop and replace its reserves, the substantial capital expenditures required to fund its operations and acquisition strategy and the related need to fund such capital requirements through commercial banks and/or public securities markets, environmental risks, drilling and operating risks, risks related to exploration and development drilling, the uncertainty inherent in estimating future oil and gas production or reserves, uncertainty inherent in litigation, competition, government regulation, and the ability of the Company to implement its business strategy, including risks inherent in integrating acquisition operations into the Company's operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
of Chesapeake Energy Corporation

We have audited the accompanying consolidated balance sheets of Chesapeake Energy Corporation and its subsidiaries as of December 31, 1997 and as of June 30, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for the six months ended December 31, 1997 and the years ended June 30, 1997 and 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chesapeake Energy Corporation and its subsidiaries as of December 31, 1997 and as of June 30, 1997 and 1996, and the consolidated results of their operations and their cash flows for the six months ended December 31, 1997 and the years ended June 30, 1997 and 1996 in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

Oklahoma City, Oklahoma
March 20, 1998

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
of Chesapeake Energy Corporation

In our opinion, the consolidated statements of operations, of cash flows and of stockholders' equity for the year ended June 30, 1995 present fairly, in all material respects, the results of operations and cash flows of Chesapeake Energy Corporation and its subsidiaries for the year ended June 30, 1995, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which 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 audit provides a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements of Chesapeake Energy Corporation and its subsidiaries for any period subsequent to June 30, 1995.

PRICE WATERHOUSE LLP

Houston, Texas
September 20, 1995, except for the fourth paragraph of Note 9
which is as of October 9, 1997 and except for the earnings per share
information as described in Note 1, which is as of March 24, 1998

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31,	JUNE 30,	
	1997	1997	1996
	($ IN THOUSANDS)		
CURRENT ASSETS:			
Cash and cash equivalents	$ 123,860	$ 124,017	$ 51,638
Short-term investments	12,570	104,485	--
Accounts receivable:			
Oil and gas sales	10,654	10,906	12,687
Oil and gas marketing sales	20,493	19,939	6,982
Joint interest and other, net of allowances of $691,000, $387,000 and $340,000, respectively	38,781	25,311	27,661
Related parties	4,246	7,401	2,884
Inventory	5,493	4,854	5,163
Other	1,624	692	2,158
Total Current Assets	217,721	297,605	109,173
PROPERTY AND EQUIPMENT:			
Oil and gas properties, at cost based on full cost accounting:			
Evaluated oil and gas properties	1,095,363	865,516	363,213
Unevaluated properties	125,155	128,505	165,441
Less: accumulated depreciation, depletion and amortization	(602,391)	(431,983)	(92,720)
	618,127	562,038	435,934
Other property and equipment	67,633	50,379	18,162
Less: accumulated depreciation and amortization	(6,573)	(5,051)	(2,922)
Total Property and Equipment	679,187	607,366	451,174
OTHER ASSETS	55,876	44,097	11,988
TOTAL ASSETS	$ 952,784	$ 949,068	$ 572,335
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Notes payable and current maturities of long-term debt	$ --	$ 1,380	$ 6,755
Accounts payable	81,775	86,817	54,514
Accrued liabilities and other	42,733	28,701	14,062
Revenues and royalties due others	28,972	29,428	33,503
Total Current Liabilities	153,480	146,326	108,834
LONG-TERM DEBT, NET	508,992	508,950	268,431
REVENUES AND ROYALTIES DUE OTHERS	10,106	6,903	5,118
DEFERRED INCOME TAXES	--	--	12,185
CONTINGENCIES AND COMMITMENTS (NOTE 4)	--	--	--
STOCKHOLDERS' EQUITY:			
Preferred Stock, $.01 par value, 10,000,000 shares authorized; none issued	--	--	--
Common Stock, 250,000,000 shares authorized; par value of $.01, $.01 and $.05 at December 31, 1997, June 30, 1997 and 1996, respectively; 74,298,061, 70,276,975 and 60,159,826 shares issued and outstanding at December 31, 1997, June 30, 1997 and 1996, respectively	743	703	3,008
Paid-in capital	460,733	432,991	136,782
Accumulated earnings (deficit)	(181,270)	(146,805)	37,977
Total Stockholders' Equity	280,206	286,889	177,767
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 952,784	$ 949,068	$ 572,335

The accompanying notes are an integral part of these consolidated financial statements.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	SIX MONTHS ENDED DECEMBER 31,	YEAR ENDED JUNE 30,		
	1997	1997	1996	1995
	($ IN THOUSANDS, EXCEPT PER SHARE DATA)			
REVENUES:				
Oil and gas sales	$ 95,657	$ 192,920	$ 110,849	$ 56,983
Oil and gas marketing sales	58,241	76,172	28,428	--
Oil and gas service operations	--	--	6,314	8,836
Interest and other	78,966	11,223	3,831	1,524
Total Revenues	232,864	280,315	149,422	67,343
COSTS AND EXPENSES:				
Production expenses and taxes	10,094	15,107	8,303	4,256
Oil and gas marketing expenses	58,227	75,140	27,452	--
Oil and gas service operations	--	--	4,895	7,747
Impairment of oil and gas properties	110,000	236,000	--	--
Oil and gas depreciation, depletion and amortization	60,408	103,264	50,899	25,410
Depreciation and amortization of other assets	2,414	3,782	3,157	1,765
General and administrative	5,847	8,802	4,828	3,578
Interest and other	17,448	18,550	13,679	6,627
Total Costs and Expenses	264,438	460,645	113,213	49,383
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	(31,574)	(180,330)	36,209	17,960
PROVISION (BENEFIT) FOR INCOME TAXES	--	(3,573)	12,854	6,299
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(31,574)	(176,757)	23,355	11,661
EXTRAORDINARY ITEM:				
Loss on early extinguishment of debt, net of applicable income tax of $3,804	--	(6,620)	--	--
NET INCOME (LOSS)	$ (31,574)	$(183,377)	$ 23,355	$ 11,661
EARNINGS (LOSS) PER COMMON SHARE:				
EARNINGS (LOSS) PER COMMON SHARE-BASIC				
Income (loss) before extraordinary item	$ (0.45)	$ (2.69)	$ 0.43	$ 0.22
Extraordinary item	--	(0.10)	--	--
Net income (loss)	$ (0.45)	$ (2.79)	$ 0.43	$ 0.22
EARNINGS (LOSS) PER COMMON SHARE-ASSUMING DILUTION				
Income (loss) before extraordinary item	$ (0.45)	$ (2.69)	$ 0.40	$ 0.21
Extraordinary item	--	(0.10)	--	--
Net income (loss)	$ (0.45)	$ (2.79)	$ 0.40	$ 0.21
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (IN 000'S)				
Basic	70,835	65,767	54,564	52,624
Assuming Dilution	70,835	65,767	58,342	55,872

The accompanying notes are an integral part of these consolidated financial statements.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED DECEMBER 31,	YEAR ENDED JUNE 30,		
	1997	1997	1996	1995
		($ IN THOUSANDS)		
CASH FLOWS FROM OPERATING ACTIVITIES:				
NET INCOME (LOSS)	$ (31,574)	$(183,377)	$ 23,355	$ 11,661
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Depreciation, depletion and amortization	62,028	105,591	52,768	26,628
Deferred taxes	--	(3,573)	12,854	6,299
Amortization of loan costs	794	1,455	1,288	548
Amortization of bond discount	41	217	563	567
Bad debt expense	40	299	114	308
Gain on sale of Bayard stock	(73,840)	--	--	--
Gain on sale of fixed assets	(209)	(1,593)	(2,511)	(108)
Impairment of oil and gas assets	110,000	236,000	--	--
Extraordinary loss	--	6,620	--	--
Equity in (earnings) losses from investments	592	(499)	--	--
CHANGES IN ASSETS AND LIABILITIES (NET OF ASSETS AND LIABILITIES ACQUIRED FROM ANSON PRODUCTION CORPORATION):				
(Increase) decrease in short-term investments	92,127	(102,858)	622	--
(Increase) decrease in accounts receivable	(7,173)	(19,987)	(3,524)	(22,510)
(Increase) decrease in inventory	(1,584)	(1,467)	78	(1,203)
(Increase) decrease in other current assets	(1,519)	1,466	(1,525)	614
Increase (decrease) in accounts payable, accrued liabilities and other	(11,044)	48,085	25,834	19,387
Increase (decrease) in current and non-current revenues and royalties due others	478	(2,290)	11,056	12,540
Cash provided by operating activities	139,157	84,089	120,972	54,731
CASH FLOWS FROM INVESTING ACTIVITIES:				
Exploration, development and acquisition of oil and gas properties	(189,755)	(468,462)	(342,045)	(117,831)
Proceeds from sale of oil and gas equipment, leasehold and other	2,503	3,095	6,167	11,953
Net proceeds from sale of Bayard stock	90,380	--	--	--
Repayment of note receivable	18,000	--	--	--
Other proceeds from sales	17	6,428	698	1,104
Long term loans made to third parties	--	(20,000)	--	--
Investment in oil field service company	(200)	(3,048)	--	--
Investment in gas marketing company, net of cash acquired	--	--	(363)	--
Other investments	(30,434)	(8,000)	--	--
Other property and equipment additions	(27,015)	(33,867)	(8,846)	(7,929)
Cash used in investing activities	(136,504)	(523,854)	(344,389)	(112,703)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of common stock	--	288,091	99,498	--
Proceeds from long-term borrowings	--	342,626	166,667	128,834
Payments on long-term borrowings	--	(119,581)	(48,634)	(32,370)
Dividends paid on common stock	(2,810)	--	--	--
Cash received from exercise of stock options	322	1,387	1,989	818
Other financing	(322)	(379)	--	--
Cash provided by (used in) financing activities	(2,810)	512,144	219,520	97,282
Net increase (decrease) in cash and cash equivalents	(157)	72,379	(3,897)	39,310
Cash and cash equivalents, beginning of period	124,017	51,638	55,535	16,225
Cash and cash equivalents, end of period	$ 123,860	$ 124,017	$ 51,638	$ 55,535

The accompanying notes are an integral part of these consolidated financial statements.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS -- (CONTINUED)

	SIX MONTHS ENDED DECEMBER 31, 1997	YEAR ENDED JUNE 30, 1997	1996	1995
		($ IN THOUSANDS)		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
CASH PAYMENTS FOR:				
Interest, net of capitalized interest	$ 17,367	$12,919	$10,751	$4,914
Income taxes	$ 500	$ --	$ --	$ --
DETAILS OF ACQUISITION OF ANSON PRODUCTION CORPORATION:				
Fair value of assets acquired	$ 43,000	$ --	$ --	$ --
Accrued liability for estimated cash consideration	$ (15,500)	$ --	$ --	$ --
Stock issued	$ (27,500)	$ --	$ --	$ --

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

The Company had a financing arrangement with a vendor to supply certain oil and gas equipment inventory. The total amounts owed at June 30, 1997, 1996 and 1995 were $1,380,000, $3,156,000 and $6,513,000, respectively. No cash consideration is exchanged for inventory under this financing arrangement until actual draws on the inventory are made.

In fiscal 1997, 1996 and 1995, the Company recognized income tax benefits of $4,808,000, $7,950,000 and $1,229,000, respectively, related to the disposition of stock options by directors and employees of the Company. The tax benefits were recorded as an adjustment to deferred income taxes and paid-in capital.

Proceeds from the issuance of $150 million of 7.875% Senior Notes and $150 million of 8.5% Senior Notes in March 1997 are net of $6.4 million in offering fees and expenses which were deducted from the actual cash received.

Proceeds from the issuances of $90 million of 10.5% Senior Notes in May 1995 and $120 million of 9.125% Senior Notes in April 1996 are net of $2.7 million and $3.9 million, respectively, in offering fees and expenses which were deducted from the actual cash received.

On December 22, 1997 the Company declared a dividend of $0.02 per common share, or $1,486,000, which was paid on January 15, 1998. On June 13, 1997 the Company declared a dividend of $0.02 per common share, or $1,405,000, which was paid on July 15, 1997.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	SIX MONTHS ENDED DECEMBER 31,	YEAR ENDED JUNE 30,		
	1997	1997	1996	1995
		($ IN THOUSANDS)		
COMMON STOCK:				
Balance, beginning of period	$ 703	$ 3,008	$ 58	$ 51
Issuance of 8,972,000 shares of common stock	--	90	--	--
Issuance of 5,989,500 shares of common stock	--	--	299	--
Exercise of stock options and warrants	2	12	79	7
Issuance of 3,792,724 shares of common stock to AnSon Production Corporation	38	--	--	--
Change in par value	--	(2,407)	2,572	--
Balance, end of period	743	703	3,008	58
COMMON STOCK WARRANTS:				
Balance, beginning of period	--	--	--	5
Exercise of Common Stock Warrants	--	--	--	(5)
Balance, end of period	--	--	--	--
PAID-IN CAPITAL:				
Balance, beginning of period	432,991	136,782	30,295	28,243
Exercise of stock options and warrants	320	1,375	1,910	823
Issuance of common stock	27,459	301,593	105,516	--
Offering expenses and other	--	(13,974)	(6,317)	--
Cumulative exchange loss	(37)	--	--	--
Tax benefit from exercise of stock options	--	4,808	7,950	1,229
Change in par value	--	2,407	(2,572)	--
Balance, end of period	460,733	432,991	136,782	30,295
ACCUMULATED EARNINGS (DEFICIT):				
Balance, beginning of period	(146,805)	37,977	14,622	2,961
Net income (loss)	(31,574)	(183,377)	23,355	11,661
Dividends on common stock of $0.02 per share	(2,891)	(1,405)	--	--
Balance, end of period	(181,270)	(146,805)	37,977	14,622
TOTAL STOCKHOLDERS' EQUITY	$ 280,206	$ 286,889	$ 177,767	$ 44,975

The accompanying notes are an integral part of these consolidated financial statements.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Company

The Company is a petroleum exploration and production company engaged in the acquisition, exploration, and development of properties for the production of crude oil and natural gas from underground reservoirs. The Company's properties are located in Texas, Louisiana, Oklahoma, Montana, North Dakota, New Mexico and Canada.

The Company has changed its fiscal year end from June 30 to December 31. The Company's results of operations and cash flows for the six months ended December 31, 1997 (the "Transition Period") are included in these consolidated financial statements.

Principles of Consolidation

The accompanying consolidated financial statements of Chesapeake Energy Corporation (the "Company") include the accounts of its wholly-owned subsidiaries Chesapeake Operating, Inc. ("COI"), Chesapeake Exploration Limited Partnership ("CEX"), a limited partnership, Chesapeake Louisiana, L.P. ("CLLP"), a limited partnership, Chesapeake Gas Development Corporation ("CGDC"), Chesapeake Energy Marketing, Inc. ("CEMI"), Chesapeake Canada Corporation ("CCC"), Chesapeake Energy Louisiana Corporation ("CELC"), Chesapeake Acquisition Corporation ("CAC"), Lindsay Oil Field Supply, Inc.("LOF"), Sander Trucking Company, Inc. ("STCO") and subsidiaries of those entities. As of June 30, 1997, CGDC had been merged into CEX, and LOF and STCO had been dissolved. All significant intercompany accounts and transactions have been eliminated. Investments in companies and partnerships which give the Company significant influence, but not control, over the investee are accounted for using the equity method.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash Equivalents

For purposes of the consolidated financial statements, the Company considers investments in all highly liquid debt instruments with maturities of three months or less at date of purchase to be cash equivalents.

Investments in Securities

The Company invests in various equity securities and short-term debt instruments including corporate bonds and auction preferreds, commercial paper and government agency notes. The Company has classified all of its short-term investments in equity and debt instruments as trading securities, which are carried at fair value with unrealized holding gains and losses included in earnings. At December 31, 1997, the Company had an unrealized holding loss of $2.4 million included in interest and other revenue. At June 30, 1997, the Company had an unrealized holding loss of $0.6 million included in interest and other revenue. At June 30, 1996 the Company had no trading securities. Investments in equity securities and limited partnerships that do not have readily determinable fair values are stated at cost and are included in noncurrent other assets. In determining realized gains and losses, the cost of securities sold is based on the average cost method.

Inventory

Inventory consists primarily of tubular goods and other lease and well equipment which the Company plans to utilize in its ongoing exploration and development activities and is carried at the lower of cost or market using the specific identification method.

Oil and Gas Properties

The Company follows the full cost method of accounting under which all costs associated with property acquisition, exploration and development activities are capitalized. The Company capitalizes internal costs that can be directly identified with its acquisition, exploration and development activities and does not include any costs related to production, general corporate overhead or similar activities (see Note 11). Capitalized costs are amortized on a composite unit-of-production method based on proved oil and gas reserves. The Company's oil and gas reserves are estimated at least annually by independent petroleum engineers and quarterly by the Company's internal engineers. The average composite rates used for depreciation, depletion and amortization were $1.57 per equivalent Mcf in the six months ended December 31, 1997 and $1.31, $0.85 and $0.80 per equivalent Mcf in fiscal 1997, 1996 and 1995, respectively.

Proceeds from the sale of properties are accounted for as reductions to capitalized costs unless such sales involve a significant change in the relationship between costs and the value of proved reserves or the underlying value of unproved properties, in which case a gain or loss is recognized. The costs of unproved properties are excluded from amortization until the properties are evaluated. The Company reviews all of its unevaluated properties quarterly to determine whether or not and to what extent proved reserves have been assigned to the properties, and otherwise if impairment has occurred. Unevaluated properties are grouped by major producing area where individual property costs are not significant, and assessed individually when individual costs are significant.

The Company reviews the carrying value of its oil and gas properties under the full cost accounting rules of the Securities and Exchange Commission on a quarterly basis. Under these rules, capitalized costs, less accumulated amortization and related deferred income taxes, shall not exceed an amount equal to the sum of the present value of estimated future net revenues less estimated future expenditures to be incurred in developing and producing the proved reserves, less any related income tax effects. At December 31, 1997 capitalized costs of oil and gas properties exceeded the estimated present value of future net revenues from the Company's proved reserves, net of related income tax considerations, resulting in a writedown in the carrying value of oil and gas properties of $110 million. At June 30, 1997, capitalized costs of oil and gas properties exceeded the estimated present value of future net revenues from the Company's proved reserves, net of related income tax considerations, resulting in a fourth quarter writedown in the carrying value of oil and gas properties of $236 million.

Other Property and Equipment

Other property and equipment consists primarily of gas gathering and processing facilities, vehicles, land, office buildings and equipment, and software. Major renewals and betterments are capitalized while the costs of repairs and maintenance are charged to expense as incurred. The costs of assets retired or otherwise disposed of and the applicable accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected in operations. Other property and equipment costs are depreciated on both straight-line and accelerated methods. Buildings are depreciated on a straight-line basis over 31.5 years. All other property and equipment is depreciated over the estimated useful lives of the assets, which range from five to seven years.

Capitalized Interest

During the six months ended December 31, 1997 and fiscal 1997, 1996 and 1995, interest of approximately $5,087,000, $12,935,000, $6,428,000 and $1,574,000 was capitalized on significant investments in unproved properties that were not being currently depreciated, depleted, or amortized and on which exploration activities were in progress.

Service Operations

Certain subsidiaries of the Company performed contract services on wells the Company operated as well as for third parties until June 30, 1996. Oil and gas service operations revenues and costs and expenses reflected in the accompanying consolidated statements of operations include amounts derived from certain of the contractual services provided. The Company's economic interest in its oil and gas properties was not affected by the performance of these contractual services and all intercompany profits have been eliminated.

On June 30, 1996, Peak USA Energy Services, Ltd., a limited partnership ("Peak"), was formed by Peak Oilfield Services Company (a joint venture between Cook Inlet Region, Inc. and Nabors Industries, Inc.) and the Company for the purpose of purchasing the Company's oilfield service assets and providing rig moving, transportation and related site construction services. The Company sold its service company assets to Peak for $6.4 million and simultaneously invested $2.5 million in exchange for a 33.3% partnership interest in Peak. This transaction resulted in recognition of a $1.8 million pre-tax gain during the fourth fiscal quarter of 1996 reported in Interest and other. A deferred gain from the sale of service company assets of $0.9 million was recorded as a reduction in the Company's investment in Peak and will be amortized to income over the estimated useful lives of the Peak assets. The Company's investment in Peak is accounted for using the equity method.

Income Taxes

The Company has adopted Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ("SFAS 109"). SFAS 109 requires deferred tax liabilities or assets to be recognized for the anticipated future tax effects of temporary differences that arise as a result of the differences in the carrying amounts and the tax bases of assets and liabilities.

Net Income (Loss) Per Share

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, Earnings Per Share ("SFAS 128"). SFAS 128 requires presentation of "basic" and "diluted" earnings per share, as defined, on the face of the statement of operations for all entities with complex capital structures. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997 and requires restatement of all prior period earnings per share amounts. The Company has adopted SFAS 128 and has restated all prior periods presented.

SFAS 128 requires a reconciliation of the numerators and denominators of the basic and diluted EPS computations. For the Transition Period and fiscal 1997 there was no difference between actual weighted average shares outstanding, which are used in computing basic EPS and diluted weighted average shares, which are used in computing diluted EPS. Options to purchase 8.3 million and 7.9 million shares of common stock at weighted average exercise prices of $5.49 and $7.09 were outstanding during the Transition Period and fiscal 1997 but were not included in the computation of diluted EPS because the effect of these outstanding options would be antidilutive. A reconciliation for fiscal 1996 and 1995 is as follows:

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
FOR THE YEAR ENDED JUNE 30, 1996:			
BASIC EPS			
Income available to common stockholders	$ 23,355	54,564	$ 0.43
EFFECT OF DILUTIVE SECURITIES			
Employee stock options	--	3,778	
DILUTED EPS			
Income available to common stockholders and assumed conversions	$ 23,355	58,342	$ 0.40
FOR THE YEAR ENDED JUNE 30, 1995:			
BASIC EPS			
Income available to common stockholders	$ 11,661	52,624	$ 0.22
EFFECT OF DILUTIVE SECURITIES			
Employee stock options	--	3,248	
DILUTED EPS			
Income available to common stockholders and assumed conversions	$ 11,661	$ 55,872	$ 0.21

Gas Imbalances -- Revenue Recognition

Revenues from the sale of oil and gas production are recognized when title passes, net of royalties. The Company follows the "sales method" of accounting for its gas revenue whereby the Company recognizes sales revenue on all gas sold to its purchasers, regardless of whether the sales are proportionate to the Company's ownership in the property. A liability is recognized only to the extent that the Company has a net imbalance in excess of the remaining gas reserves on the underlying properties. The Company's net imbalance positions at December 31, 1997 and June 30, 1997 and 1996 were not material.

Hedging

The Company periodically uses certain instruments to hedge its exposure to price fluctuations on oil and natural gas transactions. Recognized gains and losses on hedge contracts are reported as a component of the related transaction. Results for hedging transactions are reflected in oil and gas sales to the extent related to the Company's oil and gas production, and in oil and gas marketing sales to the extent related to the Company's marketing activities (see Note 10).

Debt Issue Costs

Other assets include the costs associated with the issuance of the 10.5% Senior Notes on May 25, 1995, the 9.125% Senior Notes on April 9, 1996, and the 7.875% and 8.5% Senior Notes on March 17, 1997 (see Note 2). The remaining unamortized costs on these issuances of Senior Notes at December 31, 1997 totaled $11.6 million and are being amortized over the life of the Senior Notes.

Stock Options

In October 1995, the Financial Accounting Standards Board issued Statement No. 123 ("SFAS 123"), "Accounting for Stock Based Compensation". As permitted by SFAS 123, the Company has continued its previous method of accounting for stock compensation and adopted the disclosure requirements of this Statement in fiscal 1997.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for the years ended June 30, 1997, 1996 and 1995 to conform to the presentation used for the December 31, 1997 consolidated financial statements.

2. SENIOR NOTES

On March 17, 1997, the Company issued $150 million principal amount of 7.875% Senior Notes due 2004 ("7.875% Senior Notes"). The 7.875% Senior Notes are redeemable at the option of the Company at any time prior to March 15, 2004 at the make-whole prices determined in accordance with the indenture.

On March 17, 1997, the Company issued $150 million principal amount of 8.5% Senior Notes due 2012 ("8.5% Senior Notes"). The 8.5% Senior Notes are redeemable at the option of the Company at any time prior to March 15, 2004 at the make-whole prices determined in accordance with the indenture and, on or after March 15, 2004 at the redemption price set forth therein.

On April 9, 1996, the Company issued $120 million principal amount of 9.125% Senior Notes due 2006 ("9.125% Senior Notes"). The 9.125% Senior Notes are redeemable at the option of the Company at any time prior to April 15, 2001 at the make-whole prices determined in accordance with the indenture and, on or after April 15, 2001 at the redemption prices set forth therein. The Company may also redeem at its option at any time on or prior to April 15, 1999 up to $42 million of the 9.125% Senior Notes at 109.125% of the principal amount thereof with the proceeds of an equity offering.

On May 25, 1995, the Company issued $90 million principal amount of 10.5% Senior Notes due 2002 ("10.5% Senior Notes"). The 10.5% Senior Notes are redeemable at the option of the Company at any time on or after June 1, 1999. The Company may also redeem at its option at any time on or prior to June 1, 1998 up to $30 million of the 10.5% Senior Notes at 110% of the principal amount thereof with the proceeds of an equity offering.

The Company is a holding company and owns no operating assets and has no significant operations independent of its subsidiaries. The Company's obligations under the 10.5% Senior Notes, the 9.125% Senior Notes, the 7.875% Senior Notes and the 8.5% Senior Notes have been fully and unconditionally guaranteed, on a joint and several basis, by each of the Company's "Restricted Subsidiaries" (as defined in the respective indentures governing the Senior Notes) (collectively, the "Guarantor Subsidiaries"). Each of the Guarantor Subsidiaries is a direct or indirect wholly-owned subsidiary of the Company.

The 10.5%, 9.125%, 7.875% and 8.5% Senior Note Indentures contain certain covenants, including covenants limiting the Company and the Guarantor Subsidiaries with respect to asset sales; restricted payments; the incurrence of additional indebtedness and the issuance of preferred stock; liens; sale and leaseback transactions; lines of business; dividend and other payment restrictions affecting Guarantor Subsidiaries; mergers or consolidations; and transactions with affiliates. The Company is obligated to repurchase the 10.5% and 9.125% Senior Notes in the event of a change of control or certain asset sales.

Set forth below are condensed consolidating financial statements of the Guarantor Subsidiaries, the Company's subsidiaries which are not guarantors of the Senior Notes (the "Non-Guarantor Subsidiaries") and the Company. Separate audited financial statements of each Guarantor Subsidiary have not been provided because management has determined that they are not material to investors.

As of and for the six months ended December 31, 1997, the Guarantor Subsidiaries were COI, CEX, CLLP, CELC and CCC, and the Non-Guarantor Subsidiaries were CEMI, CAC and subsidiaries of those companies. As of and for the year ended June 30, 1997, the Guarantor Subsidiaries were COI, CEX, CLLP, CELC, and CGDC, and the Non-Guarantor Subsidiaries were CEMI and CCC. Prior to fiscal 1997, the Guarantor Subsidiaries were COI, CEX and two service company subsidiaries the assets of which were sold effective June 30, 1996, and the Non-Guarantor Subsidiaries were CGDC and CEMI (which was acquired in December 1995).

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 1997
($ IN THOUSANDS)

ASSETS

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	COMPANY	ELIMINATIONS	CONSOLIDATED
CURRENT ASSETS:					
Cash and cash equivalents	$ (589)	$ 13,999	$ 110,450	$ --	$ 123,860
Short-term investments	--	--	12,570	--	12,570
Accounts receivable	57,476	22,882	1,524	(7,708)	74,174
Inventory	4,918	575	--	--	5,493
Other	1,613	1	10	--	1,624
Total Current Assets	63,418	37,457	124,554	(7,708)	217,721
PROPERTY AND EQUIPMENT:					
Oil and gas properties	1,056,118	39,245	--	--	1,095,363
Unevaluated leasehold	125,155	--	--	--	125,155
Other property and equipment	51,868	343	15,422	--	67,633
Less: accumulated depreciation, depletion and amortization	(593,359)	(14,650)	(955)	--	(608,964)
	639,782	24,938	14,467	--	679,187
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES	81,755	49,958	903,713	(1,035,426)	--
OTHER ASSETS	10,189	6,918	38,769	--	55,876
TOTAL ASSETS	$ 795,144	$ 119,271	$ 1,081,503	$(1,043,134)	$ 952,784

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt	$ --	$ --	$ --	$ --	$ --
Accounts payable and other	104,259	29,649	27,280	(7,708)	153,480
Total Current Liabilities	104,259	29,649	27,280	(7,708)	153,480
LONG-TERM DEBT	--	--	508,992	--	508,992
REVENUES AND ROYALTIES DUE OTHERS	10,106	--	--	--	10,106
DEFERRED INCOME TAXES	--	--	--	--	--
INTERCOMPANY PAYABLES	853,958	2,959	--	(856,917)	--
STOCKHOLDERS' EQUITY:					
Common Stock	10	3	733	(3)	743
Other	(173,189)	86,660	544,498	(178,506)	279,463
	(173,179)	86,663	545,231	(178,509)	280,206
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 795,144	$ 119,271	$ 1,081,503	$(1,043,134)	$ 952,784

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF JUNE 30, 1997
($ IN THOUSANDS)

ASSETS

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	COMPANY	ELIMINATIONS	CONSOLIDATED
CURRENT ASSETS:					
Cash and cash equivalents	$ (6,534)	$ 4,363	$ 126,188	$ --	$ 124,017
Short-term investments	--	4,324	100,161	--	104,485
Accounts receivable	47,379	19,943	3,022	(6,787)	63,557
Inventory	4,795	59	--	--	4,854
Other	666	26	--	--	692
Total Current Assets	46,306	28,715	229,371	(6,787)	297,605
PROPERTY AND EQUIPMENT:					
Oil and gas properties	865,485	31	--	--	865,516
Unevaluated leasehold	128,519	(14)	--	--	128,505
Other property and equipment	33,486	1,904	14,989	--	50,379
Less: accumulated depreciation, depletion and amortization	(436,276)	--	(758)	--	(437,034)
	591,214	1,921	14,231	--	607,366
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES	817	--	680,439	(681,256)	--
OTHER ASSETS	4,961	673	38,463	--	44,097
TOTAL ASSETS	$ 643,298	$ 31,309	$ 962,504	$(688,043)	$ 949,068

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt	$ 1,380	$ --	$ --	$ --	$ 1,380
Accounts payable and other	122,241	17,527	11,965	(6,787)	144,946
Total Current Liabilities	123,621	17,527	11,965	(6,787)	146,326
LONG-TERM DEBT	--	--	508,950	--	508,950
REVENUES AND ROYALTIES DUE OTHERS	6,903	--	--	--	6,903
DEFERRED INCOME TAXES	--	--	--	--	--
INTERCOMPANY PAYABLES	589,111	1,492	--	(590,603)	--
STOCKHOLDERS' EQUITY:					
Common Stock	11	1	693	(2)	703
Other	(76,348)	12,289	440,896	(90,651)	286,186
	(76,337)	12,290	441,589	(90,653)	286,889
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 643,298	$ 31,309	$ 962,504	$(688,043)	$ 949,068

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF JUNE 30, 1996
($ IN THOUSANDS)

ASSETS

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	COMPANY	ELIMINATIONS	CONSOLIDATED
CURRENT ASSETS:					
Cash and cash equivalents	$ 4,061	$ 2,751	$ 44,826	$ --	$ 51,638
Accounts receivable	44,080	7,723	--	(1,589)	50,214
Inventory	4,947	216	--	--	5,163
Other	2,155	3	--	--	2,158
Total Current Assets	55,243	10,693	44,826	(1,589)	109,173
PROPERTY AND EQUIPMENT:					
Oil and gas properties	338,610	24,603	--	--	363,213
Unevaluated leasehold	165,441	--	--	--	165,441
Other property and equipment	9,608	61	8,493	--	18,162
Less: accumulated depreciation, depletion and amortization	(87,193)	(8,007)	(442)	--	(95,642)
	426,466	16,657	8,051	--	451,174
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES	519,386	8,132	382,388	(909,906)	--
OTHER ASSETS	2,310	940	8,738	--	11,988
TOTAL ASSETS	$ 1,003,405	$ 36,422	$ 444,003	$ (911,495)	$ 572,335

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt	$ 3,846	$ 2,880	$ 29	$ --	$ 6,755
Accounts payable and other	91,069	7,339	5,260	(1,589)	102,079
Total Current Liabilities	94,915	10,219	5,289	(1,589)	108,834
LONG-TERM DEBT	2,113	10,020	256,298	--	268,431
REVENUES AND ROYALTIES DUE OTHERS	5,118	--	--	--	5,118
DEFERRED INCOME TAXES	23,950	1,335	(13,100)	--	12,185
INTERCOMPANY PAYABLES	824,307	8,182	73,647	(906,136)	--
STOCKHOLDERS' EQUITY:					
Common Stock	117	2	2,891	(2)	3,008
Other	52,885	6,664	118,978	(3,768)	174,759
	53,002	6,666	121,869	(3,770)	177,767
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,003,405	$ 36,422	$ 444,003	$ (911,495)	$ 572,335

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
($ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	COMPANY	ELIMINATIONS	CONSOLIDATED
FOR THE SIX MONTHS ENDED DECEMBER 31, 1997:					
REVENUES:					
Oil and gas sales	$ 93,384	$ 1,199	$ --	$ 1,074	$ 95,657
Oil and gas marketing sales	--	101,689	--	(43,448)	58,241
Interest and other	515	192	110,751	(32,492)	78,966
Total Revenues	93,899	103,080	110,751	(74,866)	232,864
COSTS AND EXPENSES:					
Production expenses and taxes	9,905	189	--	--	10,094
Oil and gas marketing expenses	--	100,601	--	(42,374)	58,227
Impairment of oil and gas properties	96,000	14,000	--	--	110,000
Oil and gas depreciation, depletion and amortization	59,758	650	--	--	60,408
Other depreciation and amortization	1,383	40	991	--	2,414
General and administrative	4,598	1,132	117	--	5,847
Interest	27,481	39	22,420	(32,492)	17,448
Total Costs & Expenses	199,125	116,651	23,528	(74,866)	264,438
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	(105,226)	(13,571)	87,223	--	(31,574)
INCOME TAX EXPENSE (BENEFIT)	--	--	--	--	--
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	$(105,226)	$ (13,571)	$ 87,223	$ --	$ (31,574)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
($ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	COMPANY	ELIMINATIONS	CONSOLIDATED
FOR THE YEAR ENDED JUNE 30, 1997:					
REVENUES:					
Oil and gas sales	$ 191,303	$--	$ --	$ 1,617	$ 192,920
Oil and gas marketing sales	--	145,942	--	(69,770)	76,172
Interest and other	778	749	49,224	(39,528)	11,223
Total Revenues	192,081	146,691	49,224	(107,681)	280,315
COSTS AND EXPENSES:					
Production expenses and taxes	15,107	--	--	--	15,107
Oil and gas marketing expenses	--	143,293	--	(68,153)	75,140
Impairment of oil and gas properties	236,000	--	--	--	236,000
Oil and gas depreciation, depletion amortization	103,264	--	--	--	103,264
Other depreciation and amortization	2,152	80	1,550	--	3,782
General and administrative	6,313	921	1,568	--	8,802
Interest	37,644	10	20,424	(39,528)	18,550
Total Costs & Expenses	400,480	144,304	23,542	(107,681)	460,645
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	(208,399)	2,387	25,682	--	(180,330)
INCOME TAX EXPENSE (BENEFIT)	(4,129)	47	509	--	(3,573)
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(204,270)	2,340	25,173	--	(176,757)
EXTRAORDINARY ITEM:					
Loss on early extinguishment of debt, net of applicable income tax	(769)	--	(5,851)	--	(6,620)
NET INCOME (LOSS)	$(205,039)	$ 2,340	$ 19,322	$ --	$(183,377)
FOR THE YEAR ENDED JUNE 30, 1996:					
REVENUES:					
Oil and gas sales	$ 103,712	$ 6,884	$ --	$ 253	$ 110,849
Gas marketing sales	--	34,973	--	(6,545)	28,428
Oil and gas service operations	6,314	--	--	--	6,314
Interest and other	1,917	238	1,676	--	3,831
Total Revenues	111,943	42,095	1,676	(6,292)	149,422
COSTS AND EXPENSES:					
Production expenses and taxes	7,557	746	--	--	8,303
Gas marketing expenses	--	33,744	--	(6,292)	27,452
Oil and gas service operations	4,895	--	--	--	4,895
Oil and gas depreciation, depletion amortization	48,333	2,566	--	--	50,899
Other depreciation and amortization	1,924	73	1,160	--	3,157
General and administrative	3,683	496	649	--	4,828
Interest and other	508	711	12,460	--	13,679
Total Costs & Expenses	66,900	38,336	14,269	(6,292)	113,213
Income (loss) before income taxes	45,043	3,759	(12,593)	--	36,209
Income tax expense (benefit)	15,990	1,335	(4,471)	--	12,854
Net income (loss)	$ 29,053	$ 2,424	$ (8,122)	$ --	$ 23,355
FOR THE YEAR ENDED JUNE 30, 1995:					
REVENUES:					
Oil and gas sales	$ 55,417	$ 1,566	$ --	$ --	$ 56,983
Oil and gas service operations	8,836	--	--	--	8,836
Interest and other	1,394	--	130	--	1,524
Total Revenues	65,647	1,566	130	--	67,343
COSTS AND EXPENSES:					
Production expenses and taxes	4,045	211	--	--	4,256
Oil and gas service operations	7,747	--	--	--	7,747
Oil and gas depreciation, depletion amortization	24,775	635	--	--	25,410
Other depreciation and amortization	1,245	5	515	--	1,765
General and administrative	2,620	58	900	--	3,578
Interest and other	570	184	5,873	--	6,627
Total Costs & Expenses	41,002	1,093	7,288	--	49,383
Income (loss) before income taxes	24,645	473	(7,158)	--	17,960
Income tax expense (benefit)	8,639	165	(2,505)	--	6,299

Net Income (loss)	$ 16,006	$ 308	$ (4,653)	$ --	$ 11,661

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
($ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	COMPANY	ELIMINATIONS	CONSOLIDATED
FOR THE SIX MONTHS ENDED DECEMBER 31, 1997:					
CASH FLOWS FROM OPERATING ACTIVITIES	$ 28,598	$ (10,842)	$ 121,401	$--	$ 139,157
CASH FLOWS FROM INVESTING ACTIVITIES					
Oil and gas properties	(189,772)	17	--	--	(189,755)
Proceeds from sale of assets	2,520	--	--	--	2,520
Investment in service operations	(200)	--	--	--	(200)
Other investments	(26,472)	--	99,380	--	72,908
Other additions	(22,864)	1,340	(453)	--	(21,977)
	(236,788)	1,357	98,927	--	(136,504)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Dividends paid on common stock	--	--	(2,810)	--	(2,810)
Exercise of stock options	--	--	322	--	322
Other financing	--	(322)	--	--	(322)
Intercompany advances, net	214,135	19,443	(233,578)	--	--
	214,135	19,121	(236,066)	--	(2,810)
Net increase (decrease) in cash and cash equivalents	5,945	9,636	(15,738)	--	(157)
Cash, beginning of period	(6,534)	4,363	126,188	--	124,017
Cash, end of period	$ (589)	$ 13,999	$ 110,450	$--	$ 123,860

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
($ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	COMPANY	ELIMINATIONS	CONSOLIDATED
FOR THE YEAR ENDED JUNE 30, 1997:					
CASH FLOWS FROM OPERATING ACTIVITIES	$ 165,850	$ (11,008)	$ (70,753)	$ --	$ 84,089
CASH FLOWS FROM INVESTING ACTIVITIES					
Oil and gas properties	(468,519)	57	--	--	(468,462)
Proceeds from sale of assets	9,523	--	--	--	9,523
Investment in service operations	(3,048)	--	--	--	(3,048)
Long-term loans to third parties	(2,000)	--	(18,000)	--	(20,000)
Other investments	--	--	(8,000)	--	(8,000)
Other additions	(24,318)	(1,999)	(7,550)	--	(33,867)
	(488,362)	(1,942)	(33,550)	--	(523,854)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from borrowings	50,000	--	292,626	--	342,626
Payments on borrowings	(118,901)	--	(680)	--	(119,581)
Exercise of stock options	--	--	1,387	--	1,387
Issuance of common stock	--	--	288,091	--	288,091
Other financing	--	--	(379)	--	(379)
Intercompany advances, net	380,735	14,645	(395,380)	--	--
	311,834	14,645	185,665	--	512,144
Net increase (decrease) in cash and cash equivalents	(10,678)	1,695	81,362	--	72,379
Cash, beginning of period	4,144	2,668	44,826	--	51,638
Cash, end of period	$ (6,534)	$ 4,363	$ 126,188	$ --	$ 124,017
FOR THE YEAR ENDED JUNE 30, 1996:					
CASH FLOWS FROM OPERATING ACTIVITIES	$ 126,868	$ 4,204	$ (10,100)	$ --	$ 120,972
CASH FLOWS FROM INVESTING ACTIVITIES					
Oil and gas properties	(341,246)	(6,099)	--	5,300	(342,045)
Proceeds from sales	12,165	--	--	(5,300)	6,865
Investment in gas marketing company	--	266	(629)	--	(363)
Other additions	(4,683)	(109)	(4,054)	--	(8,846)
	(333,764)	(5,942)	(4,683)	--	(344,389)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from borrowings	40,350	10,300	116,017	--	166,667
Payments on borrowings	(45,397)	(3,200)	(37)	--	(48,634)
Exercise of stock options	--	--	1,989	--	1,989
Issuance of common stock	--	--	99,498	--	99,498
Intercompany advances, net	162,777	(2,616)	(160,161)	--	--
	157,730	4,484	57,306	--	219,520
Net increase (decrease) in cash and cash equivalents	(49,166)	2,746	42,523	--	(3,897)
Cash, beginning of period	53,227	5	2,303	--	55,535
Cash, end of period	$ 4,061	$ 2,751	$ 44,826	$ --	$ 51,638
FOR THE YEAR ENDED JUNE 30, 1995:					
CASH FLOWS FROM OPERATING ACTIVITIES	$ 60,049	$ 305	$ (4,692)	$ (931)	$ 54,731
CASH FLOWS FROM INVESTING ACTIVITIES:					
Oil and gas properties	(113,722)	(4,109)	--	--	(117,831)
Proceeds from sales	24,557	--	--	(11,500)	13,057
Purchase of oil and gas properties	--	(11,500)	--	11,500	--
Other additions	(7,929)	--	--	--	(7,929)
	(97,094)	(15,609)	--	--	(112,703)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from borrowings	30,034	11,500	87,300	--	128,834
Payments on borrowings	(32,032)	(700)	362	--	(32,370)
Intercompany advances, net	78,324	4,509	(83,764)	931	--
Other financing	--	--	818	--	818
	76,326	15,309	4,716	931	97,282
Net increase (decrease) in cash and cash equivalents	39,281	5	24	--	39,310
Cash, beginning of period	13,946	--	2,279	--	16,225
Cash, end of period	$ 53,227	$ 5	$ 2,303	$ --	$ 55,535

3. NOTES PAYABLE AND LONG-TERM DEBT

Notes payable and long-term debt consist of the following:

	DECEMBER 31, 1997	JUNE 30, 1997	JUNE 30, 1996
	($ IN THOUSANDS)		
7.875% Senior Notes (see Note 2)	$ 150,000	$ 150,000	$ --
Discount on 7.875% Senior Notes	(106)	(115)	--
8.5% Senior Notes (see Note 2)	150,000	150,000	--
Discount on 8.5% Senior Notes	(833)	(862)	--
9.125% Senior Notes (see Note 2)	120,000	120,000	120,000
Discount on 9.125% Senior Notes	(69)	(73)	(81)
10.5% Senior Notes (see Note 2)	90,000	90,000	90,000
12% Senior Notes	--	--	47,500
Discount on 12% Senior Notes	--	--	(1,772)
Term note payable to Union Bank collateralized by CGDC, not guaranteed by the Company, variable interest at Union Bank's base rate (8.25% per annum at June 30, 1996), or at Eurodollar rate +1.875% collateralized by CGDC's producing oil and gas properties, payable in monthly installments through November 2002	--	--	12,900
Note payable to a vendor, collateralized by oil and gas tubulars, payments due 60 days from shipment of the tubulars	--	1,380	3,156
Note payable to a bank, variable interest at a referenced base rate + 1.75% (10% per annum at June 30, 1996), collateralized by office buildings, payments due in monthly installments through May 1998	--	--	680
Notes payable to various entities to acquire oil service equipment, interest varies from 7% to 11% per annum, collateralized by equipment	--	--	1,212
Other collateralized	--	--	1,469
Other unsecured	--	--	122
Total notes payable and long-term debt	508,992	510,330	275,186
Less -- Current maturities	--	(1,380)	(6,755)
Notes payable and long-term debt, net of current maturities	$ 508,992	$ 508,950	$ 268,431

The aggregate scheduled maturities of notes payable and long-term debt for the next five fiscal years ending December 31, 2002 and thereafter were as follows as of December 31, 1997 (in thousands of dollars):

1998	$ --
1999	--
2000	--
2001	--
2002	90,000
After 2002	418,992
	$508,992

In January 1998, the Company arranged a $500 million revolving credit facility with a group of commercial banks. The facility has an initial committed borrowing base of $200 million ($168 million until the acquisition of DLB Oil & Gas, Inc. (see footnote 14) is consummated), of which $120 million was used to pay off bank debt assumed in the acquisition of Hugoton Energy Corporation (see footnote 14) on March 10, 1998 and the remainder is anticipated to be used for other acquisitions. The borrowing base can be expanded as other acquisitions create collateral value. Borrowings under the facility are secured by CAC's pledge of its subsidiaries' capital stock and bear interest currently at a rate equal to the Eurodollar rate plus 1.5%.

During the quarter ended December 31, 1996, the Company exercised its covenant defeasance rights with respect to all of its outstanding $47.5 million of 12% Senior Notes due 2001. A combination of cash and non-callable U.S. Government Securities in the amount of $55.0 million was irrevocably deposited in trust to satisfy the Company's obligations, including accrued but unpaid interest through the date of defeasance of $1.3 million.

4. CONTINGENCIES AND COMMITMENTS

The Company and certain of its officers and directors are defendants in a consolidated class action suit alleging violations of the Securities Exchange Act of 1934. The plaintiffs assert that the defendants made material misrepresentations and failed to disclose material facts about the success of the Company's exploration efforts in the Louisiana Trend. As a result, the complaint alleges the price of the Company's common stock was artificially inflated from January 25, 1996 until June 27, 1997, when the Company issued a press release announcing disappointing drilling results in the Louisiana Trend and a full-cost ceiling writedown to be reflected in its June 30, 1997 financial statements. The plaintiffs further allege that certain of the named individual defendants sold common stock during the class period when they knew or should have known adverse nonpublic information. The plaintiffs seek a determination that the suit is a proper class action and damages in an unspecified amount, together with interest and costs of litigation, including attorneys' fees. The Company and the individual defendants believe that these claims are without merit, and intend to defend against them vigorously. No estimate of loss or range of estimate of loss, if any, can be made at this time.

Various purported class actions alleging violations of the Securities Act of 1933 and the Oklahoma Securities Act have been filed against the Company and others on behalf of investors who purchased common stock of Bayard Drilling Technologies, Inc. ("Bayard") in its initial public offering in November 1997. Total proceeds of the offering were $254 million, of which the Company received net proceeds of $90.2 million. Plaintiffs allege that the Company, a major customer of Bayard's drilling services and the owner of 30.1% of Bayard's common stock outstanding prior to the offering, was a controlling person of Bayard. Plaintiffs assert that the Bayard prospectus contained material omissions and misstatements relating to (i) the Company's financial "hardships" and their significance on Bayard's business, (ii) increased costs associated with Bayard's growth strategy and (iii) undisclosed pending related-party transactions between Bayard and third parties other than the Company. The alleged defective disclosures are claimed to have resulted in a decline in Bayard's share price following the public offering. Each plaintiff seeks a determination that the suit is a proper class action and damages in an unspecified amount or rescission, together with interest and costs of litigation, including attorneys' fees. The Company believes that these actions are without merit and intends to defend against them vigorously. No estimate of loss or range of estimate of loss, if any, can be made at this time.

In October 1996, Union Pacific Resources Company ("UPRC") sued the Company alleging infringement of a patent for a drilling method, tortious interference with confidentiality contracts between UPRC and certain of its former employees and misappropriation of proprietary information of UPRC. UPRC's claims against the Company are based on services provided to the Company by a third party vendor controlled by former UPRC employees. UPRC is seeking injunctive relief, damages of an unspecified amount, including actual, enhanced, consequential and punitive damages, interest, costs and attorneys' fees. The Company believes that it has meritorious defenses to UPRC's allegations and has requested the court to declare the UPRC patent invalid. The Company has also filed a motion to construe UPRC's patent claims and various motions for summary judgment. No estimate of a probable loss or range of estimate of a probable loss, if any, can be made at this time; however, in reports filed in the proceeding, experts for UPRC claim that damages could be as much as $18 million while Company experts state that the amount should not exceed $25,000, in each case based on a reasonable royalty.

The Company is currently involved in various other routine disputes incidental to its business operations. While it is not possible to determine the ultimate disposition of these matters, management, after consultation with legal counsel, is of the opinion that the final resolution of all such currently pending or threatened litigation is not likely to have a material adverse effect on the consolidated financial position or results of operations of the Company.

The Company has employment contracts with its two principal shareholders and its chief financial officer and various other senior management personnel which provide for annual base salaries, bonus compensation and various benefits. The contracts provide for the continuation of salary and benefits for the respective terms of the agreements in the event of termination of employment without cause. These agreements expire at various times from June 30, 1998 through June 30, 2000.

Due to the nature of the oil and gas business, the Company and its subsidiaries are exposed to possible environmental risks. The Company has implemented various policies and procedures to avoid environmental contamination and risks from environmental contamination. The Company is not aware of any potential material environmental issues or claims.

As of December 31, 1997, the Company had guaranteed $1.8 million of debt owed by Peak.

On December 16, 1997, the Company acquired AnSon Production Corporation ("AnSon"), a privately owned oil and gas producer based in Oklahoma City. Consideration for this acquisition was approximately $43 million consisting of the issuance of 3,792,724 shares of Chesapeake's common stock and cash consideration in accordance with the terms of the merger agreement. The Company has accrued $15.5 million as the estimated cash payment which will be made during 1998.

The Company is in the process of acquiring various proved oil and gas reserves through mergers or through purchases of oil and gas properties. Upon the closing of each of these acquisitions, the Company will issue either cash or a combination of cash and Chesapeake common stock as consideration for the assets and liabilities being acquired. See Note 14 -- Subsequent Events and Pending Transactions.

5. INCOME TAXES

The components of the income tax provision (benefit) for each of the periods are as follows:

	SIX MONTHS ENDED DECEMBER 31,	YEAR ENDED JUNE 30,		
	1997	1997	1996	1995
		($ IN THOUSANDS)		
Current	$ --	$ --	$ --	$ --
Deferred	--	(3,573)	12,854	6,299
Total	$ --	$(3,573)	$12,854	$6,299

The effective income tax expense (benefit) differed from the computed "expected" federal income tax expense (benefit) on earnings before income taxes for the following reasons:

	SIX MONTHS ENDIING DECEMBER 31,	YEAR ENDED JUNE 30,		
	1997	1997	1996	1995
		($ IN THOUSANDS)		
Computed "expected" income tax provision (benefit)	$ (11,051)	$(63,116)	$12,673	$6,286
Tax percentage depletion	(48)	(294)	(238)	(144)
Valuation allowance	13,818	64,116	--	--
State income taxes and other	(2,719)	(4,279)	419	157
	$ --	$(3,573)	$12,854	$6,299

Deferred income taxes are provided to reflect temporary differences in the basis of net assets for income tax and financial reporting purposes. The tax effected temporary differences and tax loss carryforwards which comprise deferred taxes are as follows:

	SIX MONTHS ENDED DECEMBER 31, 1997	YEAR ENDED JUNE 30, 1997	1996	1995
		($ IN THOUSANDS)		
Deferred tax liabilities:				
Acquisition, exploration and development costs and related depreciation, depletion and amortization	$ (49,657)	$ (49,831)	$ (63,725)	$ (31,220)
Deferred tax assets:				
Net operating loss carryforwards	126,485	112,889	50,776	23,414
Percentage depletion carryforward	1,106	1,058	764	526
	127,591	113,947	51,540	23,940
Net deferred tax asset (liability)	77,934	64,116	(12,185)	(7,280)
Less: Valuation allowance	(77,934)	(64,116)	--	--
Total deferred tax asset (liability)	$ --	$ --	$ (12,185)	$ (7,280)

SFAS 109 requires that the Company record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In the Transition Period and the fourth quarter of fiscal 1997, the Company recorded a $110 million writedown and a $236 million writedown, respectively, related to the impairment of oil and gas properties. The writedowns and significant tax net operating loss carryforwards (caused primarily by expensing intangible drilling costs for tax purposes) resulted in a net deferred tax asset at December 31, 1997 and June 30, 1997. Management believes it is more likely than not that the Company will generate future tax net operating losses for at least the next five years, based in part on the Company's continued drilling efforts. Therefore, the Company has recorded a valuation allowance equal to the net deferred tax asset.

At December 31, 1997, the Company had regular tax net operating loss carryforwards of approximately $337 million and alternative minimum tax net operating loss carryforwards of approximately $83 million. These loss carryforward amounts will expire during the years 2007 through 2012. The Company also had a percentage depletion carryforward of approximately $2.9 million at December 31, 1997, which is available to offset future federal income taxes payable and has no expiration date.

In accordance with certain provisions of the Tax Reform Act of 1986, a change of greater than 50% of the beneficial ownership of the Company within a three-year period (an "Ownership Change") would place an annual limitation on the Company's ability to utilize its existing tax carryforwards. Under regulations issued by the Internal Revenue Service, the Company has had an Ownership Change. However, management believes this will not result in a significant limitation of the utilization of the tax carryforwards.

6. RELATED PARTY TRANSACTIONS

Certain directors, shareholders and employees of the Company have acquired working interests in certain of the Company's oil and gas properties. The owners of such working interests are required to pay their proportionate share of all costs. As of December 31, 1997 and June 30, 1997, 1996 and 1995, the Company had accounts receivable from such parties of $4.2 million, $7.4 million, $2.9 million and $4.4 million, respectively.

During the six months ended December 31, 1997 and during fiscal 1997, 1996 and 1995, the Company incurred legal expenses of $388,000, $207,000, $347,000 and $516,000, respectively, for legal services provided by a law firm of which a director is a member.

7. EMPLOYEE BENEFIT PLANS

The Company maintains the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan, a 401(k) profit sharing plan. Eligible employees may make voluntary contributions to the plan which are matched by the Company for up to 10% of the employee's annual salary with the Company's common stock. The amount of employee contribution is limited as specified in the plan. The Company may, at its discretion, make additional contributions to the plan. The Company contributed $418,000, $603,000, $187,000 and $95,000 to the plan during the six months ended December 31, 1997 and the fiscal years ended June 30, 1997, 1996 and 1995, respectively.

8. MAJOR CUSTOMERS

Sales to individual customers constituting 10% or more of total oil and gas sales were as follows:

SIX MONTHS ENDED DECEMBER 31,		AMOUNT ($ IN THOUSANDS)	PERCENT OF OIL AND GAS SALES
1997	Aquila Southwest Pipeline Corporation	$ 20,138	21%
	Koch Oil Company	$ 18,594	19%
	GPM Gas Corporation	$ 12,610	13%
FISCAL YEAR ENDED JUNE 30,			
1997	Aquila Southwest Pipeline Corporation	$ 53,885	28%
	Koch Oil Company	$ 29,580	15%
	GPM Gas Corporation	$ 27,682	14%
1996	Aquila Southwest Pipeline Corporation	$ 41,900	38%
	GPM Gas Corporation	$ 28,700	26%
	Wickford Energy Marketing, L.C.	$ 18,500	17%
1995	Aquila Southwest Pipeline Corporation	$ 18,548	33%
	Wickford Energy Marketing, L.C.	$ 15,704	28%
	GPM Gas Corporation	$ 11,686	21%

Management believes that the loss of any of the above customers would not have a material impact on the Company's results of operations or its financial position.

9. STOCKHOLDERS' EQUITY AND STOCK BASED COMPENSATION

On December 16, 1997, Chesapeake acquired AnSon, a privately owned oil and gas producer based in Oklahoma City. Consideration for this acquisition was approximately $43 million consisting of the issuance of 3,792,724 shares of Chesapeake common stock and cash consideration in accordance with the terms of the merger agreement.

On December 2, 1996, the Company completed a public offering of 8,972,000 shares of Common Stock at a price of $33.63 per share, resulting in net proceeds to the Company of approximately $288.1 million.

On April 12, 1996, the Company completed a public offering of 5,989,500 shares of Common Stock at a price of $17.67 per share, resulting in net proceeds to the Company of approximately $99.4 million.

A 2-for-1 stock split of the Common Stock in December 1994, and in December 1996, and a 3-for-2 stock split of the Common Stock in December 1995 and in June 1996 have been given retroactive effect in these financial statements.

Stock Option Plans

Under the Company's 1992 Incentive Stock Option Plan (the "ISO Plan"), options to purchase Common Stock may be granted only to employees of the Company and its subsidiaries. Subject to any adjustment as provided by the ISO Plan, the aggregate number of shares which may be issued and sold may not exceed 3,762,000 shares. The maximum period for exercise of an option may not be more than 10 years (or five years for an optionee who owns more than 10% of the Common Stock) from the date of grant, and the exercise price may not be less than the fair market value of the shares underlying the options on the date of grant (or 110% of such value for an optionee who owns more than 10% of the Common Stock). Options granted become exercisable at dates determined by the Stock Option Committee of the Board of Directors. No options could be granted under the ISO Plan after December 16, 1994.

Under the Company's 1992 Nonstatutory Stock Option Plan (the "NSO Plan"), non-qualified options to purchase Common Stock may be granted only to directors and consultants of the Company. Subject to any adjustment as provided by the NSO Plan, the aggregate number of shares which may be issued and sold may not exceed 3,132,000 shares. The maximum period for exercise of an option may not be more than 10 years from the date of grant, and the exercise price may not be less than the fair market value of the shares underlying the options on the date of grant. Options granted become exercisable at dates determined by the Stock Option Committee of the Board of Directors. No options can be granted under the NSO Plan after December 10, 2002.

Under the Company's 1994 Stock Option Plan (the "1994 Plan"), and its 1996 Stock Option Plan (the "1996 Plan"), incentive and nonqualified stock options to purchase Common Stock may be granted to employees and consultants of the Company and its subsidiaries. Subject to any adjustment as provided by the respective plans, the aggregate number of shares which may be issued and sold may not exceed 4,886,910 shares under the 1994 Plan and 6,000,000 shares under the 1996 Plan. The maximum period for exercise of an option may not be more than 10 years from the date of grant and the exercise price may not be less than 75% of the fair market value of the shares underlying the options on the date of grant. Options granted become exercisable at dates determined by the Stock Option Committee of the Board of Directors. No options can be granted under the 1994 Plan after December 16, 2004 or under the 1996 Plan after October 14, 2006.

The Company has elected to follow APB No. 25, Accounting for Stock Issued to Employees and related interpretations in accounting for its employee stock options. Under APB No. 25, compensation expense is recognized for the difference between the option price and market value on the measurement date. No compensation expense has been recognized because the exercise price of the stock options equaled the market price of the underlying stock on the date of grant.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method of the statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the six months ended December 31, 1997 and fiscal 1997 and 1996, respectively: interest rates (zero-coupon U.S. government issues with a remaining life equal to the expected term of the options) of 6.45%, 6.74% and 6.21%; dividend yields of 0.9%, 0.9% and 0.9%; volatility factors of the expected market price of the Company's common stock of .67, .60 and .60; and weighted-average expected life of the options of four years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The Company's pro forma information follows:

	SIX MONTHS ENDED DECEMBER 31	YEAR ENDED JUNE 30,	
	1997	1997	1996
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Net Income (Loss)			
As reported	$(31,574)	$(183,377)	$23,355
Pro forma	(35,084)	(190,160)	22,081
Earnings (Loss) per Share			
As reported	$(0.45)	$(2.79)	$0.40
Pro forma	(0.50)	(2.89)	0.38

For purposes of the pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period, which is four years. Because the Company's stock options vest over four years and additional awards are typically made each year, the above pro forma disclosures are not likely to be representative of the effects on pro forma net income for future years. A summary of the Company's stock option activity and related information follows:

	SIX MONTHS ENDED DECEMBER 31, 1997	
	OPTIONS	WEIGHTED-AVG EXERCISE PRICE
Outstanding Beginning of Period	7,903,659	$ 7.09
Granted	3,362,207	8.29
Exercised	(219,349)	3.13
Forfeited	(2,716,136)	13.87
Outstanding End of Period	8,330,381	5.49
Exercisable End of Period	3,838,869	
Shares Authorized for Future Grants	4,585,973	
Fair Value of Options Granted During the Period		$ 4.98

	YEAR ENDED JUNE 30,					
	1997		1996		1995	
	OPTIONS	WEIGHTED-AVG EXERCISE PRICE	OPTIONS	WEIGHTED-AVG EXERCISE PRICE	OPTIONS	WEIGHTED-AVG EXERCISE PRICE
Outstanding Beginning of Year	7,602,884	$ 4.66	6,828,592	$1.97	5,033,340	$0.72
Granted	3,564,884	19.35	2,426,850	9.98	3,185,550	3.38
Exercised	(1,197,998)	1.95	(1,574,046)	1.31	(1,288,732)	0.67
Forfeited	(2,066,111)	22.26	(78,512)	2.61	(101,566)	0.92
Outstanding End of Year	7,903,659	7.09	7,602,884	4.66	6,828,592	1.97
Exercisable End of Year	3,323,824		2,974,386		2,489,742	
Shares Authorized for Future Grants	5,212,056		713,826		3,102,982	
Fair Value of Options Granted During the Year		$ 7.51		$4.84		N/A

The following table summarizes information about stock options outstanding at December 31, 1997:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING 12/31/97	WEIGHTED-AVG. REMAINING CONTRACTUAL LIFE	WEIGHTED-AVG. EXERCISE PRICE	NUMBER EXERCISABLE 12/31/97	WEIGHTED-AVG. EXERCISE PRICE
$ 0.56 - $ 0.71	1,010,675	5.04	$ 0.61	1,010,675	$ 0.61
$ 0.78 - $ 1.33	562,500	4.47	$ 1.12	562,500	$ 1.12
$ 2.25 - $ 2.25	1,048,207	6.80	$ 2.25	687,982	$ 2.25
$ 2.43 - $ 4.92	408,689	6.92	$ 3.15	394,159	$ 3.08
$ 4.92 - $ 4.92	963,378	7.32	$ 4.92	382,618	$ 4.92
$ 5.67 - $ 5.67	1,138,724	7.67	$ 5.67	479,061	$ 5.67
$ 6.47 - $ 6.47	180,000	7.78	$ 6.47	180,000	$ 6.47
$ 7.31 - $ 7.31	997,606	9.64	$ 7.31	0	$ 0.00
$ 8.04 - $ 8.04	136,790	4.64	$ 8.04	0	$ 0.00
$ 8.75 - $30.63	1,883,812	9.45	$ 10.67	141,874	$ 24.80
$ 0.56 - $30.63	8,330,381	7.54	$ 5.49	3,838,869	$ 3.46

The exercise of certain stock options results in state and federal income tax benefits to the Company related to the difference between the market price of the Common Stock at the date of disposition (or sale) and the option price. During the six months ended December 31, 1997 and fiscal 1997, 1996 and 1995, $0, $4,808,000, $7,950,000 and $1,229,000, respectively, were recorded as adjustments to additional paid-in capital and deferred income taxes with respect to such tax benefits.

10. FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company has only limited involvement with derivative financial instruments, as defined in Statement of Financial Accounting Standards No. 119 "Disclosure About Derivative Financial Instruments and Fair Value of Financial Instruments", and does not use them for trading purposes. The Company's objective is to hedge a portion of its exposure to price volatility from producing crude oil and natural gas. These arrangements may expose the Company to credit risk from its counterparties and to basis risk. The Company does not expect that the counterparties will fail to meet their obligations given their high credit ratings.

Hedging Activities

Periodically the Company utilizes hedging strategies to hedge the price of a portion of its future oil and gas production. These strategies include (1) swap arrangements that establish an index-related price above which the Company pays the counterparty and below which the Company is paid by the counterparty, (2) the purchase of index-related puts that provide for a "floor" price below which the counterparty pays the Company the amount by which the price of the commodity is below the contracted floor, (3) the sale of index-related calls that provide for a "ceiling" price above which the Company pays the counterparty the amount by which the price of the commodity is above the contracted ceiling, and (4) basis protection swaps, which are arrangements that guarantee the price differential of oil or gas from a specified delivery point or points. Results from hedging transactions are reflected in oil and gas sales to the extent related to the Company's oil and gas production. The Company only enters into hedging transactions related to the Company's oil and gas production volumes or CEMI physical purchase or sale commitments.

As of December 31, 1997, the Company had the following oil swap arrangements for periods after December 1997:

MONTHS	VOLUME (Bbls)	NYMEX-INDEX STRIKE PRICE (per Bbl)
January through June 1998	724,000	$19.82

The Company entered into oil swap arrangements to cancel the effect of the swaps at a price of $18.85 per Bbl.

As of December 31, 1997, the Company had the following gas swap arrangements for periods after December 1997:

MONTHS	VOLUME (MMBTU)	HOUSTON SHIP CHANNEL INDEX STRIKE PRICE (PER MMBTU)
April 1998	600,000	$ 2.300
May 1998	620,000	$ 2.215

The Company received $1.3 million as a premium for calls sold for January and February 1998 volumes of 2,480,000 MMBtu and 2,240,000 MMBtu, respectively. The January calls expired on December 31, 1997, the February calls expired on January 31, 1998, and the associated premiums will be recognized as income during the corresponding months of production.

The Company has also entered into the following collar transactions:

MONTHS	VOLUME (MMBtu)	NYMEX DEFINED HIGH STRIKE PRICE	NYMEX DEFINED LOW STRIKE PRICE
March 1998	1,240,000	2.693	$2.33
April 1998	1,200,000	2.483	$2.11

These transactions require that the Company pay the counterparty if the NYMEX price exceeds the defined high strike price and that the counterparty pay the Company if the NYMEX price is less than the defined low strike price.

The Company entered into a curve lock for 4.9 Bcf of gas which allows the Company the option to hedge April 1999 through November 1999 gas based upon a negative $0.285 differential to December 1998 gas any time between the strike date and December 1998. A curve lock is a commodity swap arrangement that establishes, or hedges, a price differential between one commodity contract period and another. In markets where the forward curve is typically negatively sloped (prompt prices exceed deferred prices), an upward sloping price curve allows hedgers to lock in a deferred forward sale at a higher premium to a more prompt swap by a curve lock.

Gains or losses on crude oil and natural gas hedging transactions are recognized as price adjustments in the month of related production. The Company estimates that had all of the crude oil and natural gas swap agreements in effect for production periods beginning on or after January 1, 1998 terminated on December 31, 1997, based on

the closing prices for NYMEX futures contracts as of that date, the Company would have received a net amount of approximately $1.1 million from the counterparty which would have represented the "fair value" at that date. These agreements were not terminated.

Periodically, CEMI enters into various hedging transactions designed to hedge against physical purchase commitments made by CEMI. Gains or losses on these transactions are recorded as adjustments to Oil and Gas Marketing Sales in the consolidated statements of operations and are not considered by management to be material.

Concentration of Credit Risk

Other financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash, short-term investments in debt instruments and trade receivables. The Company's accounts receivable are primarily from purchasers of oil and natural gas products and exploration and production companies which own interests in properties operated by the Company. The industry concentration has the potential to impact the Company's overall exposure to credit risk, either positively or negatively, in that the customers may be similarly affected by changes in economic, industry or other conditions. The Company generally requires letters of credit for receivables from customers which are judged to have sub-standard credit, unless the credit risk can otherwise be mitigated. The cash and investments in debt securities are with major banks or institutions with high credit ratings.

Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments". The estimated fair value amounts have been determined by the Company using available market information and valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

The carrying values of items comprising current assets and current liabilities approximate fair values due to the short-term maturities of these instruments. See Note 15 for the fair value of financial instruments included in noncurrent other assets at December 31, 1997. The Company estimates the fair value of its long-term, fixed-rate debt using quoted market prices. The Company's carrying amount for such debt at December 31, 1997 and June 30, 1997 and 1996 was $509.0 million, $508.9 million and $255.6 million, respectively, compared to approximate fair values of $517.0 million, $514.1 million and $261.2 million, respectively. The carrying value of other long-term debt approximates its fair value as interest rates are primarily variable, based on prevailing market rates.

11. DISCLOSURES ABOUT OIL AND GAS PRODUCING ACTIVITIES

Net Capitalized Costs

Evaluated and unevaluated capitalized costs related to the Company's oil and gas producing activities are summarized as follows:

	DECEMBER 31, 1997	JUNE 30, 1997	JUNE 30, 1996
	($ IN THOUSANDS)		
Oil and gas properties:			
Proved	1,095,363	$ 865,516	$ 363,213
Unproved	125,155	128,505	165,441
Total	1,220,518	994,021	528,654
Less accumulated depreciation, depletion and amortization	(602,391)	(431,983)	(92,720)
Net capitalized costs	$ 618,127	$ 562,038	$ 435,934

Unproved properties not subject to amortization at December 31, 1997, June 30, 1997 and 1996 consisted mainly of lease acquisition costs. The Company capitalized approximately $5,087,000, $12,935,000 and $6,428,000 of interest during the six months ended December 31, 1997 and the years ended June 30, 1997 and 1996 on significant investments in unproved properties that were not yet included in the amortization base of the full-cost pool. The Company will continue to evaluate its unevaluated properties; however, the timing of the ultimate evaluation and disposition of the properties has not been determined.

Costs Incurred in Oil and Gas Acquisition, Exploration and Development

Costs incurred in oil and gas property acquisition, exploration and development activities which have been capitalized are summarized as follows:

	SIX MONTHS ENDED DECEMBER 31, 1997	YEAR ENDED JUNE 30, 1997	1996	1995
		($ IN THOUSANDS)		
Development costs	$ 120,628	$ 187,736	$ 138,188	$ 78,679
Exploration costs	40,534	136,473	39,410	14,129
Acquisition costs:				
Unproved properties	25,516	140,348	138,188	24,437
Proved properties	39,245	--	24,560	--
Capitalized internal costs	2,435	3,905	1,699	586
Proceeds from sale of leasehold, equipment and other	(1,861)	(3,095)	(6,167)	(11,953)
Total	$ 226,497	$ 465,367	$ 335,878	$ 105,878

Results of Operations from Oil and Gas Producing Activities (unaudited)

The Company's results of operations from oil and gas producing activities are presented below for the six months ended December 31, 1997 and for the years ended June 30, 1997, 1996 and 1995, respectively. The following table includes revenues and expenses associated directly with the Company's oil and gas producing activities. It does not include any allocation of the Company's interest costs and, therefore, is not necessarily indicative of the contribution to consolidated net operating results of the Company's oil and gas operations.

	SIX MONTHS ENDED DECEMBER 31, 1997	YEAR ENDED JUNE 30, 1997	1996	1995
		($ IN THOUSANDS)		
Oil and gas sales	$ 95,657	$ 192,920	$ 110,849	$ 56,983
Production costs (a)	(10,094)	(15,107)	(8,303)	(4,256)
Impairment of oil and gas properties	(110,000)	(236,000)	--	--
Depletion and depreciation	(60,408)	(103,264)	(50,899)	(25,410)
Imputed income tax (provision) benefit(b)	31,817	60,544	(18,335)	(9,561)
Results of operations from oil and gas producing activities	$ (53,028)	$(100,907)	$ 33,312	$ 17,756

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(a) Production costs include lease operating expenses and production taxes.

(b) The imputed income tax provision is hypothetical (at the statutory rate) and determined without regard to the Company's deduction for general and administrative expenses, interest costs and other income tax credits and deductions.

Capitalized costs, less accumulated amortization and related deferred income taxes, can not exceed an amount equal to the sum of the present value (discounted at 10%) of estimated future net revenues less estimated future expenditures to be incurred in developing and producing the proved reserves, less any related income tax effects. At December 31, 1997, capitalized costs of oil and gas properties exceeded the estimated present value of future net revenues for the Company's proved reserves, net of related income tax considerations, resulting in a writedown in the carrying value of oil and gas properties of $110 million. At June 30, 1997, capitalized costs of oil and gas properties also exceeded the estimated present value of future net revenues for the Company's proved reserves, net of related income tax considerations, resulting in a writedown in the carrying value of oil and gas properties of $236 million.

Oil and Gas Reserve Quantities (unaudited)

The reserve information presented below is based upon reports prepared by independent petroleum engineers and the Company's petroleum engineers. As of December 31, 1997, Williamson Petroleum Consultants ("Williamson"), Porter Engineering Associates, Netherland, Sewell & Associates, Inc. and internal reservoir engineers evaluated approximately 46%, 48%, 4% and 2% of total proved oil and gas reserves, respectively. As of June 30, 1997, 1996 and 1995, the reserves evaluated by Williamson constituted approximately 50%, 99% and 99% of total proved reserves, respectively, with the remaining reserves being evaluated internally. The reserves evaluated internally in fiscal 1997 were subsequently evaluated by Williamson with a variance of approximately 4% of total proved reserves. The information is presented in accordance with regulations prescribed by the Securities and Exchange Commission. The Company emphasizes that reserve estimates are inherently imprecise. The Company's reserve estimates were generally based upon extrapolation of historical production trends, analogy to similar properties and volumetric calculations. Accordingly, these estimates are expected to change, and such changes could be material and occur in the near term as future information becomes available.

Proved oil and gas reserves represent the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed oil and gas reserves are those expected to be recovered through existing wells with existing equipment and operating methods. As of December 31, 1997, all of the Company's oil and gas reserves were located in the United States.

Presented below is a summary of changes in estimated reserves of the Company for the six months ended December 31, 1997 and for the years 1997, 1996 and 1995:

	DECEMBER 31,		JUNE 30,			
	1997		1997		1996	
	OIL (MBbl)	GAS (MMcf)	OIL (MBbl)	GAS (MMcf)	OIL (MBbl)	GAS (MMcf)
Proved reserves, beginning of period	17,373	298,766	12,258	351,224	5,116	211,808
Extensions, discoveries and other additions	5,573	68,813	13,874	147,485	8,781	158,052
Revisions of previous estimate	(3,428)	(24,189)	(5,989)	(137,938)	(669)	12,987
Production	(1,857)	(27,327)	(2,770)	(62,005)	(1,413)	(51,710)
Sale of reserves-in-place	--	--	--	--	--	--
Purchase of reserves-in-place	565	23,055	--	--	443	20,087
Proved reserves, end of period	18,226	339,118	17,373	298,766	12,258	351,224
Proved developed reserves, end of period	10,087	178,082	7,324	151,879	3,648	144,721

	JUNE 30,	
	1995	
	OIL (MBbl)	GAS (MMcf)
Proved reserves, beginning of period	4,154	117,066
Extensions, discoveries and other additions	2,549	138,372
Revisions of previous estimate	(448)	(18,516)
Production	(1,139)	(25,114)
Sale of reserves-in-place	--	--
Purchase of reserves-in-place	--	--
Proved reserves, end of period	5,116	211,808
Proved developed reserves, end of period	1,973	77,764

For the six months ended December 31, 1997 the Company recorded revisions to the June 30, 1997 reserve estimates of approximately 3,428 MBbl and 24,189 MMcf, or approximately 45 Bcfe. The reserve revisions are primarily attributable to lower than expected results from development drilling and production which eliminated certain previously established proven reserves.

On December 16, 1997, Chesapeake acquired AnSon, a privately owned oil and

gas producer, based in Oklahoma City. Consideration for this acquisition was approximately $43 million. The Company estimates that it acquired approximately 26.4 Bcfe in connection with this acquisition.

For the fiscal year ended June 30, 1997, the Company recorded revisions to the previous year's reserve estimates of approximately 5,989 MBbl and 137,938 MMcf, or approximately 174 Bcfe. The reserve revisions are primarily attributable to the decrease in oil and gas prices between periods, higher drilling and completion costs, and unfavorable developmental drilling and production results during fiscal 1997. Specifically, the Company recorded aggregate downward adjustments to proved reserves of 159 Bcfe for the Knox, Giddings and Louisiana Trend areas.

On April 30, 1996, the Company purchased interests in certain producing and non-producing oil and gas properties, including approximately 14,000 net acres of unevaluated leasehold, from Amerada Hess Corporation for $37.8 million. The properties are located in the Knox and Golden Trend fields of southern Oklahoma, most of which are operated by the Company. In fiscal 1996 the reserves acquired from Amerada Hess Corporation were included in both "Extensions, discoveries and other additions" and "Purchase of reserves in-place". The fiscal 1996 presentation has been restated in the current year to remove the acquired reserves from "Extensions, discoveries and other additions" with a corresponding offset to "Revisions of previous estimate". This revision resulted in no net change to total oil and gas reserves.

Standardized Measure of Discounted Future Net Cash Flows (unaudited)

Statement of Financial Accounting Standards No. 69 ("SFAS 69") prescribes guidelines for computing a standardized measure of future net cash flows and changes therein relating to estimated proved reserves. The Company has followed these guidelines which are briefly discussed below.

Future cash inflows and future production and development costs are determined by applying year-end prices and costs to the estimated quantities of oil and gas to be produced. Estimates are made of quantities of proved reserves and the future periods during which they are expected to be produced based on year-end economic conditions. Estimated future income taxes are computed using current statutory income tax rates including consideration for the current tax basis of the properties and related carryforwards, giving effect to permanent differences and tax credits. The resulting future net cash flows are reduced to present value amounts by applying a 10% annual discount factor.

Since December 31, 1997 oil and gas prices have declined, with oil prices reaching ten-year lows in March 1998. In addition, the Company has completed several acquisitions based on expectations of higher oil and gas prices than those currently being received. Based on NYMEX oil prices of $16.50 per Bbl and NYMEX gas prices of $2.35 per Mcf in effect on March 25, 1998, and estimates of the Company's proved reserves as of December 31, 1997 (pro forma for the acquisitions completed during the quarter ended March 31, 1998), the Company estimates it will incur an additional full cost ceiling writedown of between $175 million and $200 million as of March 31, 1998. If this occurs, the Company will incur a substantial loss for the first quarter of 1998 which would further reduce shareholders' equity.

The assumptions used to compute the standardized measure are those prescribed by the Financial Accounting Standards Board and, as such, do not necessarily reflect the Company's expectations of actual revenue to be derived from those reserves nor their present worth. The limitations inherent in the reserve quantity estimation process, as discussed previously, are equally applicable to the standardized measure computations since these estimates are the basis for the valuation process.

The following summary sets forth the Company's future net cash flows relating to proved oil and gas reserves based on the standardized measure prescribed in SFAS 69:

	DECEMBER 31,	JUNE 30,		
	1997	1997	1996	1995
		($ IN THOUSANDS)		
Future cash inflows	1,100,807	$ 954,839	$ 1,101,642	$ 427,377
Future production costs	(223,030)	(190,604)	(168,974)	(75,927)
Future development costs	(158,387)	(152,281)	(137,068)	(76,543)
Future income tax provision	(108,027)	(104,183)	(135,543)	(51,789)
Future net cash flows	611,363	507,771	660,057	223,118
Less effect of a 10% discount factor	(181,253)	(92,273)	(198,646)	(63,207)
Standardized measure of discounted future net cash flows	$ 430,110	$ 415,498	$ 461,411	$ 159,911

The principal sources of change in the standardized measure of discounted future net cash flows are as follows:

	DECEMBER 31,	JUNE 30,		
	1997	1997	1996	1995
		($ IN THOUSANDS)		
Standardized measure, beginning of period	$ 415,498	$ 461,411	$ 159,911	$ 118,608
Sales of oil and gas produced, net of production costs	(85,563)	(177,813)	(102,546)	(52,727)
Net changes in prices and production costs	26,106	(99,234)	88,729	(24,807)
Extensions and discoveries, net of production and development costs	92,597	287,068	275,916	108,644
Changes in future development costs	(7,422)	(12,831)	(11,201)	3,406
Development costs incurred during the period that reduced future development costs	47,703	46,888	43,409	23,678
Revisions of previous quantity estimates	(62,655)	(199,738)	12,728	(21,595)
Purchase of reserves-in-place	25,236	--	29,641	--
Accretion of discount	43,739	54,702	18,814	14,126
Net change in income taxes	(14,510)	63,719	(57,382)	(5,586)
Changes in production rates and other	(50,619)	(8,674)	3,392	(3,836)
Standardized measure, end of period	$ 430,110	$ 415,498	$ 461,411	$ 159,911

12. TRANSITION PERIOD COMPARATIVE DATA

The following table presents certain financial information for the six months ended December 31, 1997 and 1996, respectively:

	SIX MONTHS ENDED DECEMBER 31,	
	1997	1996
		(UNAUDITED)
	($ IN THOUSANDS, EXCEPT PER SHARE DATA)	
Revenues	$ 232,864	$ 122,702
Gross profit (loss) (a)	$ (93,092)	$ 42,946
Income (loss) before income taxes and extraordinary item	$ (31,574)	$ 39,246
Income taxes	--	14,325
Income (loss) before extraordinary item	(31,574)	24,921
Extraordinary item	--	(6,443)
Net income (loss)	$ (31,574)	$ 18,478
Earnings per share - basic		
Income (loss) before extraordinary item	$ (0.45)	$ 0.40
Extraordinary item	--	(0.10)
Net income (loss)	$ (0.45)	$ 0.30
Earnings per share - assuming dilution		
Income (loss) before extraordinary item	$ (0.45)	$ 0.38
Extraordinary item	--	(0.10)
Net income (loss)	$ (0.45)	$ 0.28
Weighted average common shares outstanding (in 000's)		
Basic	70,835	61,985
Assuming dilution	70,835	66,300

- ----------

(a) Total revenue excluding interest and other income, less total costs and expenses excluding interest and other expense.

13. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized unaudited quarterly financial data for the six months ended December 31, 1997 and fiscal 1997 and 1996 are as follows ($ in thousands except per share data):

	QUARTER ENDED	
	SEPTEMBER 30, 1997	DECEMBER 31, 1997
Net sales	$ 72,532	$81,366
Gross profit (loss)(a)	8,210	(101,302)
Net Income (loss)	5,513	(37,087)
Net Income (loss) per share:		
Basic	.08	(.52)
Diluted	.08	(.52)

	QUARTER ENDED			
	SEPTEMBER 30, 1996	DECEMBER 31, 1996	MARCH 31, 1997	JUNE 30, 1997
Net sales	$48,937	$71,249	$79,809	$69,097
Gross profit (loss)(a)	14,889	28,057	25,737	(241,686)
Income (loss) before extraordinary item	8,204	16,717	16,105	(217,783)
Net income (loss)	8,204	10,274	15,928	(217,783)
Income (loss) per share before extraordinary item:				
Basic	.14	.26	.23	(3.12)
Diluted	.13	.25	.22	(3.12)

	QUARTER ENDED			
	SEPTEMBER 30, 1996	DECEMBER 31, 1996	MARCH 31, 1997	JUNE 30, 1997
Net sales	$21,988	$31,766	$44,145	$47,692
Gross profit(a)	6,368	11,368	14,741	13,580
Net income	2,915	5,459	7,623	7,358
Net income per share:				
Basic	.06	.10	.14	.12
Diluted	.05	.10	.13	.12

- ----------

(a) Total revenue excluding interest and other income, less total costs and expenses excluding interest and other expense.

Capitalized costs, less accumulated amortization and related deferred income taxes, cannot exceed an amount equal to the sum of the present value of estimated future net revenues less estimated future expenditures to be incurred in developing and producing the proved reserves, less any related income tax effects. At December 31, 1997 and at June 30, 1997, capitalized costs of oil and gas properties exceeded the estimated present value of future net revenues for the Company's proved reserves, net of related income tax considerations, resulting in writedowns in the carrying value of oil and gas properties of $110 million and $236 million, respectively.

14. SUBSEQUENT EVENTS AND PENDING TRANSACTIONS

On October 22, 1997, the Company entered into an agreement to acquire by merger the Mid-Continent operations of DLB Oil & Gas, Inc. The Company will pay $17.5 million cash and will issue a total of five million shares of the Company's common stock as merger consideration to the shareholders of DLB. The closing of the DLB acquisition is expected to occur in late April 1998 and is subject to approval by DLB shareholders and other customary conditions. Certain shareholders of DLB, who collectively own approximately 77.7% of outstanding DLB common stock, have granted the Company an irrevocable proxy to vote such shares (or have executed a written consent) in favor of the merger.

On November 12, 1997, the Company entered into an agreement to acquire Hugoton Energy Corporation which was consummated on March 10, 1998. Each share of Hugoton common stock was converted into the right to receive 1.3 shares of Chesapeake common stock, requiring the Company to issue approximately 25.8 million shares of Chesapeake common stock (based on 19.8 million shares of Hugoton common stock outstanding as of February 6, 1998, which amount excludes shares issuable upon exercise of outstanding Hugoton options).

On January 30, 1998, the Company entered into an alliance with Ranger Oil Limited to jointly develop a 3.2 million acre area of mutual interest in the Helmet, Midwinter, and Peggo areas of northeastern British Columbia. In addition, the Company paid Ranger approximately $48 million. The transaction closed in January 1998 with an effective date of December 1, 1997.

In February 1998, the Company closed the purchase of the Mid-Continent properties of privately owned Enervest Management Company L.L.C. for $38 million.

On March 5, 1998, the Company entered into a definitive agreement to acquire 100% of the stock of MC Panhandle Corp., a wholly owned subsidiary of Occidental Petroleum Corporation. The Company has agreed to pay $105 million in cash for the estimated proved reserves in the West Panhandle Field in Carson, Gray, Hutchinson and Moore Counties of the Texas Panhandle. The effective date of the transaction is January 1, 1998 with closing scheduled for May 29, 1998.

15. ACQUISITIONS

On December 5, 1997, Chesapeake purchased from Pan East Petroleum Corporation ("Pan East"), a publicly-traded Canadian exploration and production company, 19.9% of Pan East's common stock for $22 million. The purpose of Chesapeake's investment is to assist Pan East in financing its share of the exploration, development and acquisition activities under a joint venture whereby Chesapeake has the right to participate as a non-operator with up to a 50% interest in all drilling activities and acquisitions made by Pan East during the two years ending December 31, 1999. The Company will account for its investment in Pan East using the equity method. Based upon the closing price of Pan East's common stock at December 31, 1997, the market value of Chesapeake's investment in Pan East was $12.6 million.

On December 16, 1997, the Company acquired AnSon, a privately owned oil and gas producer based in Oklahoma City. Consideration for this acquisition was approximately $43 million consisting of the issuance of 3,792,724 shares of Chesapeake's common stock and cash consideration in accordance with the terms of the merger agreement. The Company has accrued $15.5 million as the estimated cash payment which will be made during 1998.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Effective July 1, 1996, Price Waterhouse LLP sold its Oklahoma City practice to Coopers & Lybrand L.L.P. and resigned as the Company's independent accountants. The Company's decision to change independent accountants and retain Coopers & Lybrand L.L.P. was approved by the Audit Committee of the Board of Directors and by the Board of Directors. During the period Price Waterhouse LLP was engaged by the Company, Price Waterhouse LLP did not issue any report on the Company's financial statements containing an adverse opinion, disclaimer of opinion, or qualification. There were no disagreements between the Company and Price Waterhouse LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, nor were there any reportable events.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by this Item 10 is incorporated herein by reference to the definitive Proxy Statement to be filed by the Company pursuant to Regulation 14A of the General Rules and Regulations under the Securities Exchange Act of 1934 not later than April 30, 1998.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by this Item 11 is incorporated herein by reference to the definitive Proxy Statement to be filed by the Company pursuant to Regulation 14A of the General Rules and Regulations under the Securities Exchange Act of 1934 not later than April 30, 1998.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by this Item 12 is incorporated herein by reference to the definitive Proxy Statement to be filed by the Company pursuant to Regulation 14A of the General Rules and Regulations under the Securities Exchange Act of 1934 not later than April 30, 1998.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by this Item 13 is incorporated herein by reference to the definitive Proxy Statement to be filed by the Company pursuant to Regulation 14A of the General Rules and Regulations under the Securities Exchange Act of 1934 not later than April 30, 1998.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

1. Financial Statements. The Company's Consolidated Financial Statements are included in Item 8 of this report. Reference is made to the accompanying Index to Consolidated Financial Statements.

2. Financial Statement Schedules. No financial statement schedules are filed with this report as no schedules are applicable or required.

3. Exhibits. The following exhibits are filed herewith pursuant to the requirements of Item 601 of Regulation S-K:

EXHIBIT NUMBER	DESCRIPTION
3.1*	Registrant's Certificate of Incorporation, as amended.
3.2	Registrant's Bylaws. Incorporated herein by reference to Exhibit 3.2 to Registrant's registration statement on Form 8-B (No. 001-13726).
4.1	Indenture dated as of March 15, 1997 among the Registrant, as issuer, its subsidiaries signatory thereto as Subsidiary Guarantors, and United States Trust Company of New York, as Trustee, with respect to 7.875% Senior Notes due 2004. Incorporated herein by reference to Exhibit 4.1 to Registrant registration statement on Form S-4 (No. 333-24995).
4.1.1*	First Supplemental Indenture dated December 17, 1997 and Second Supplemental Indenture dated February 16, 1998, to Indenture filed as Exhibit 4.1.
4.2	Indenture dated as of March 15, 1997 among the Registrant, as issuer, its subsidiaries signatory thereto, as Subsidiary Guarantors, and United States Trust Company of New York, as Trustee, with respect to 8.5% Senior Notes due 2012. Incorporated herein by reference to Exhibit 4.1.3 to Registrant registration statement on Form S-4 (No. 333-24995).
4.2.1*	First Supplemental Indenture dated December 17, 1997 and Second Supplemental Indenture dated February 16, 1998 to Indenture filed as Exhibit 4.2.
4.3	Indenture dated as of May 15, 1995 among Chesapeake Energy Corporation, its subsidiaries signatory thereto as Subsidiary Guarantors and United States Trust Company of New York, as Trustee, with respect to 10.5% Senior Notes due 2002. Incorporated herein by reference to Exhibit 4.3 to Registrant's registration statement on Form S-4 (No. 33-93718).
4.3.1*	First Supplemental Indenture dated December 30, 1996 and Second Supplemental Indenture dated December 17, 1997 filed as Exhibit 4.3.
4.4	Indenture dated April 1, 1996 among Chesapeake Energy Corporation, its subsidiaries signatory thereto as Subsidiary Guarantors and United States Trust Company of New York, as Trustee, with respect to 9.125% Senior Notes due 2006. Incorporated herein by reference to Exhibit 4.6 to Registrant's registration statement on Form S-3 Registration Statement (No. 333-1588)
4.4.1*	First Supplemental Indenture dated December 30, 1996 and Second Supplemental Indenture dated December 17, 1997, to Indenture filed as Exhibit 4.4.
4.5	Agreement to furnish copies of unfiled long-term debt instruments.
4.6*	Credit Agreement dated March 9, 1998 between Chesapeake Acquisition Corporation and Chesapeake Mid-Continent Corp., as Borrowers, Chesapeake Merger Corp., Chesapeake Acquisition Corp., Chesapeake Columbia Corp., Mid-Continent Gas Pipeline Company, and AnSon Gas Marketing as Initial Guarantors, Union Bank of California, N.A., as Agent and Certain Financial Institutions, as Lenders.
4.8	Stock Registration Agreement dated May 21, 1992 between Chesapeake Energy Corporation and various lenders, as amended by First Amendment thereto dated May 26, 1992. Incorporated herein by reference to Exhibits 10.26.1 and 10.26.2 to Registrant's registration statement on Form S-1 (No. 33-55600).

4.9 -- Registration Rights Agreement dated October 22, 1997 as amended by Amendment No. 1 dated December 22, 1997 between Chesapeake Energy Corporation and Charles E. Davidson. Incorporated herein by reference to Exhibits 4.9 and 4.10 to Registrant's registration statement on Form S-4 (No. 333-48735).

4.10 -- Registration Rights Agreement between Chesapeake Energy Corporation and certain former shareholders of Hugoton Energy Corporation. Incorporated herein by reference to Exhibit 4.11 to Registrant's registration statement on Form S-4 Registration Statement (No. 333-48735).

10.1.1 -- Registrant's 1992 Incentive Stock Option Plan. Incorporated herein by reference to Exhibit 10.1.1 to Registrant's registration statement on Form S-4 (No. 33-93718).

10.1.2 -- Registrant's 1992 Nonstatutory Stock Option Plan, as amended. Incorporated herein by reference to Exhibit 10.1.2 to Registrant's quarterly report on Form 10-Q for the quarter ended December 31, 1996.

10.1.3 -- Registrant's 1994 Stock Option Plan, as amended. Incorporated herein by reference to Exhibit 10.1.3 to Registrant's quarterly report on Form 10-Q for the quarter ended December 31, 1996.

10.1.4 -- Registrant's 1996 Stock Option Plan. Incorporated herein by reference to Registrant's Proxy Statement for its 1996 Annual Meeting of Shareholders.

10.1.4.1 -- Amendment to the Chesapeake Energy Corporation 1996 Stock Option Plan. Incorporated herein by reference to Exhibit 10.1.4.1 to Registrant's annual report on Form 10-K for the year ended June 30, 1997.

10.2.1+ -- Employment Agreement dated as of July 1, 1997 between Aubrey K. McClendon and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.1 to Registrant's annual report on Form 10-K for the year ended June 30, 1997.

10.2.2+ -- Employment Agreement dated as of July 1, 1997 between Tom L. Ward and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.2 to Registrant's annual report on Form 10-K for the year ended June 30, 1997.

10.2.3+ -- Employment Agreement dated as of July 1, 1997 between Marcus C. Rowland and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.3 to Registrant's annual report on Form 10-K for the year ended June 30, 1997.

10.2.4+ -- Employment Agreement dated as of July 1, 1997 between Steven C. Dixon and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.4 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1997.

10.2.5+ -- Employment Agreement dated as of July 1, 1997 between J. Mark Lester and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.5 to Registrant's annual report on Form 10-K for the year ended June 30, 1997.

10.2.6+ -- Employment Agreement dated as of July 1, 1997 between Henry J. Hood and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.6 to Registrant's annual report on Form 10-K for the year ended June 30, 1997.

10.2.7+ -- Employment Agreement dated as of July 1, 1997 between Ronald A. Lefaive and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.7 to Registrant's annual report on Form 10-K for the year ended June 30, 1997.

10.2.8+ -- Employment Agreement dated as of July 1, 1997 between Martha A. Burger and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.8 to Registrant's annual report on Form 10-K for the year ended June 30, 1997.

10.3+ -- Form of Indemnity Agreement for officers and directors of Registrant and its subsidiaries. Incorporated herein by reference to Exhibit 10.30 to Registrant's registration statement on Form S-1 (No. 33-55600).

10.9 -- Indemnity and Stock Registration Agreement, as amended by First Amendment (Revised) thereto, dated as of February 12, 1993, and as amended by Second Amendment thereto dated as of October 20, 1995, among Chesapeake Energy Corporation, Chesapeake Operating, Inc., Chesapeake Investments, TLW Investments, Inc., et al. Incorporated herein by reference to Exhibit 10.35 to Registrant's annual report on Form 10-K for the year ended June 30, 1993 and Exhibit 10.4.1 to Registrant's quarterly report on Form 10-Q for the quarter ended December 31, 1995.

10.10 -- Partnership Agreement of Chesapeake Exploration Limited Partnership dated December 27, 1994 between Chesapeake Energy Corporation and Chesapeake Operating, Inc. Incorporated herein by reference to Exhibit 10.10 to Registrant's registration statement on Form S-4 (No. 33-93718).

10.11 -- Amended and Restated Limited Partnership Agreement of Chesapeake Louisiana, L.P. dated June 30, 1997 between Chesapeake Operating, Inc. and Chesapeake Energy Louisiana Corporation. Incorporated herein by reference to Exhibit 10.11 to Registrant's annual report on Form 10-K for the year ended June 30, 1997.

21* -- Subsidiaries of Registrant
23.1* -- Consent of Coopers & Lybrand L.L.P.
23.2* -- Consent of Price Waterhouse LLP
23.3* -- Consent of Williamson Petroleum Consultants, Inc.
23.4* -- Consent of Netherland, Sewell & Associates, Inc.
23.5* -- Consent of Porter Engineering Associates
27* -- Financial Data Schedule

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* Filed herewith.

+ Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

During the quarter ended December 31, 1997, the Company filed the following Current Reports on Form 8-K dated

October 1, 1997 announcing the declaration of a quarterly dividend.

October 31, 1997 announcing the acquisition of DLB Oil & Gas, Inc. and AnSon Production Corporation, and completion of Masters Creek wells.

November 5, 1997 announcing expected proceeds from the initial public offering of Bayard Drilling Technologies, Inc.

November 6, 1997 reporting fiscal 1998 first quarter results, $74 million profit from Bayard initial public offering, new Louisiana Trend completions, and change in fiscal year end.

November 20, 1997 announcing the change of its fiscal year end to December 31 and that a transition report on Form 10-K will be filed.

December 11, 1997 announced the successful completion of a well located in Pointe Coupee Parish, Louisiana.

December 24, 1997 announcing the declaration of a quarterly cash dividend on the Company's $0.01 par value common stock.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHESAPEAKE ENERGY CORPORATION

Date March 31, 1998

By /s/ AUBREY K. MCCLENDON
Aubrey K. McClendon
Chairman of the Board and
Chief Executive Officer

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

SIGNATURE	TITLE	DATE
/s/ AUBREY K. MCCLENDON Aubrey K. McClendon	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 31, 1998
/s/ TOM L. WARD Tom L. Ward	President, Chief Operating Officer and Director (Principal Executive Officer)	March 31, 1998
/s/ MARCUS C. ROWLAND Marcus C. Rowland	Senior Vice President Finance and Chief Financial Officer (Principal Financial Officer)	March 31, 1998
/s/ RONALD A. LEFAIVE Ronald A. Lefaive	Controller (Principal Accounting Officer)	March 31, 1998
/s/ EDGAR F. HEIZER, JR. Edgar F. Heizer, Jr.	Director	March 31, 1998
/s/ BREENE M. KERR Breene M. Kerr	Director	March 31, 1998
/s/ SHANNON T. SELF Shannon T. Self	Director	March 31, 1998
/s/ FREDERICK B. WHITTEMORE Frederick B. Whittemore	Director	March 31, 1998
/s/ WALTER C. WILSON Walter C. Wilson	Director	March 31, 1998

INDEX TO EXHIBITS

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23.5* -- Consent of Porter Engineering Associates

27* -- Financial Data Schedule

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* Filed herewith.

+ Management contract or compensatory plan or arrangement.

EXHIBIT 3.1

AMENDMENT TO
CERTIFICATE OF INCORPORATION
OF
CHESAPEAKE ENERGY CORPORATION

(AFTER RECEIPT OF PAYMENT FOR STOCK)

The undersigned, Aubrey K. McClendon, as Chairman of the Board and Chief Executive Officer, and Janice A. Dobbs, as Secretary of Chesapeake Energy Corporation, a corporation organized and existing under the laws of the State of Oklahoma (the "Corporation"), hereby certify as follows:

A. The name of the Corporation is Chesapeake Energy Corporation.

B. The name under which the Corporation was originally incorporated is Chesapeake Oklahoma Corporation. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of Oklahoma on November 19, 1996, as amended by that certain Certificate of Ownership and Merger Merging Chesapeake Energy Corporation into Chesapeake Oklahoma Corporation filed with the Secretary of State of Oklahoma on December 23, 1996, effective December 31, 1996 (the "Certificate of Incorporation").

C. This Amendment to Certificate of Incorporation was duly adopted in accordance with the provisions of Section 1077 of the General Corporation Act of Oklahoma (the "Act") at the Corporation's annual meeting by a majority of the outstanding capital stock of the Corporation entitled to vote thereon. Written notice of the Corporation's annual meeting was given to the stockholders of the Corporation in accordance with the provisions of Section 1067 of the Act.

D. The Certificate of Incorporation is hereby amended as follows:

1. Amendment to Article IV. The first sentence of Article IV of the Certificate of Incorporation starting with the words "The total number of shares of capital stock . . . " is hereby deleted in its entirety and the following sentence is substituted therefor:

> The total number of shares of capital stock which the Corporation shall have authority to issue is Two Hundred Sixty Million (260,000,000) shares, consisting of Ten Million (10,000,000) shares of Preferred Stock, par value $0.01 per share, and Two Hundred Fifty Million (250,000,000) shares of Common Stock, par value $0.01 per share.

IN WITNESS WHEREOF, this Amendment to Certificate of Incorporation was duly adopted by the board of directors and the stockholders of the Corporation in accordance with Section 1077 of the Act and executed this 9th day of December, 1997, by Aubrey K. McClendon, as Chairman of the Board and Chief Executive Officer, and attested by Janice A. Dobbs, as Secretary.

/s/ Aubrey K. McClendon

Aubrey K. McClendon, Chairman of the Board and Chief Executive Officer

Attest:

/s/ Janice A. Dobbs
- ---

Janice A. Dobbs, Secretary

CERTIFICATE OF OWNERSHIP AND MERGER
MERGING
CHESAPEAKE ENERGY CORPORATION
INTO
CHESAPEAKE OKLAHOMA CORPORATION

CHESAPEAKE ENERGY CORPORATION, a Delaware corporation (the "Corporation"), DOES HEREBY CERTIFY:

FIRST: That it owns 100% of the issued and outstanding shares of the capital stock of CHESAPEAKE OKLAHOMA CORPORATION, an Oklahoma corporation ("Chesapeake Oklahoma").

SECOND: That its board of directors at a meeting held on the 15th day of October, 1996, determined to merge the Corporation into CHESAPEAKE OKLAHOMA CORPORATION, and did adopt the following resolutions:

WHEREAS, the officers of the Corporation recommended that the Corporation reincorporate under the laws of the State of Oklahoma and the Board of Directors, after discussing the issue, has determined that the reincorporation is in the best interest of the shareholders and the Corporation; and

WHEREAS, to facilitate the Corporation's reincorporation, the officers of the Corporation recommended that the Corporation form Chesapeake Oklahoma Corporation ("Chesapeake Oklahoma") to be organized and exist under and by virtue of the laws of the State of Oklahoma, with an authorized capitalization of (i) 100 million shares of common stock, $.01 par value ("Chesapeake Oklahoma Common Stock"), 10 shares of which will be issued and outstanding prior to the reincorporation, and (ii) 10 million shares of preferred stock, $.01 par value, no shares of which will be issued and outstanding prior to the reincorporation (all shares of Chesapeake Oklahoma Common Stock outstanding prior to the reincorporation will be held of record and beneficially by the Corporation).

NOW, THEREFORE, BE IT RESOLVED, that the officers of the Corporation be, and each of them hereby is, authorized and directed to take any and all actions required to reincorporate the Corporation under the laws of the State of Oklahoma, including without limitation, the forming of Chesapeake Oklahoma as a new transitory subsidiary, in accordance with the recitations set forth herein, the listing of the shares of Chesapeake Oklahoma on the New York Stock Exchange, the registration of such shares with the Securities and Exchange Commission and any state securities agency, the assumption by Chesapeake Oklahoma of all existing plans and registration statements of the Corporation and such other actions as may be necessary to the effect that the rights and obligations of Chesapeake Oklahoma will be virtually identical to the rights and obligations of the Corporation.

WHEREAS, after the formation of Chesapeake Oklahoma, the Board of Directors deems it advisable and in the best interests of the Corporation and its shareholders that the Corporation merge with and into Chesapeake Oklahoma pursuant to Section 1083 of the Oklahoma General Corporation Act and Section 253 of the Delaware General Corporation Law (the "Merger") and immediately thereafter for Chesapeake Oklahoma to change its name to Chesapeake Energy Corporation; and

WHEREAS, the Corporation and Chesapeake Oklahoma will hereinafter be know as the "Constituent Corporations;" and

WHEREAS, the Board of Directors deems it advisable and in the best interests of the Corporation and its shareholders that the Corporation be merged with and into Chesapeake Oklahoma in the manner contemplated herein (the "Plan") and recommend that the Merger and the Plan be approved and adopted by the shareholders of the Corporation;

NOW, THEREFORE, BE IT RESOLVED, that the Constituent Corporations will be merged into a single corporation by the Corporation merging with and into Chesapeake Oklahoma, which will survive the Merger, pursuant to the provisions of Section 1083 of the Oklahoma General Corporation Act and Section 253 of the Delaware General Corporation Law. Upon such Merger, the separate existence of the Corporation will cease, and Chesapeake Oklahoma will become the owner, without transfer, of all rights and property of the Constituent Corporations, and will be subject to all the liabilities of the Constituent Corporations in the same manner as if Chesapeake Oklahoma

had itself incurred such liabilities all as provided by the Oklahoma General Corporation Act.

FURTHER RESOLVED, that, on the Effective Date of the Merger, which will be 5:00 p.m., CST, on December 31, 1996 (the "Effective Date of the Merger"), the Certificate of Incorporation and Bylaws of Chesapeake Oklahoma, as currently in effect, will be the Certificate of Incorporation and Bylaws of Chesapeake Oklahoma until they are duly amended, except that the name of Chesapeake Oklahoma will be changed to Chesapeake Energy Corporation.

FURTHER RESOLVED, that on the Effective Date of the Merger, the directors and officers of the Corporation will become the directors and officers of Chesapeake Oklahoma until their successors are duly elected and qualified.

FURTHER RESOLVED, that on the Effective Date of the Merger (i) each share of Chesapeake Common Stock issued and outstanding immediately prior to the Effective Date of the Merger, by virtue of the Merger and without any action on the part of the holder thereof, will be converted into one share of Chesapeake Oklahoma Common Stock, (ii) each share of Chesapeake Oklahoma Common Stock issued and outstanding immediately prior to the Effective Date of the Merger, by virtue of the Merger and without any action on the part of the holder thereof, will be cancelled and no payment will be made in respect thereof, and (iii) upon surrender of any certificates representing Chesapeake Common Stock, stock certificates representing Chesapeake Oklahoma Common Stock will be reissued to the holder thereof.

FURTHER RESOLVED, that this Plan will be submitted to the shareholders of the Corporation for approval in the manner provided by applicable Oklahoma and Delaware law. After approval by the vote of the holders representing not less than a majority of the issued and outstanding shares of Chesapeake Common Stock entitled to vote on the Merger, the officers are, and each of them hereby is, authorized and directed to execute and file with the Secretary of State of the States of Oklahoma and Delaware a Certificate of Ownership and Merger and to make any such further filings as may be necessary to effectuate the Merger.

FURTHER RESOLVED, that the officers of the Corporation are authorized and directed to execute any and all agreements, documents or consents, and to take any and all actions deemed necessary or desirable to permit the consummation of the Merger as required by: (a) that certain Indenture dated as of March 31, 1994, as supplemented, among the Corporation, its subsidiaries signatory thereto as Subsidiary Guarantors and United States Trust Company of New York, as trustee; (b) that certain Indenture dated as of May 15, 1995 among the Corporation, its subsidiaries signatory thereto as Subsidiary Guarantors and United States Trust Company of New York, as trustee; and (c) that certain Indenture dated as of April 1, 1996 among the Corporation, its subsidiaries signatory thereto as Subsidiary Guarantors and United States Trust Company of New York, as trustee. The execution by the officers, or any one of them, of any such document or agreement, or the doing by them of any act in connection with the foregoing matter, will conclusively establish their authority therefor from this Board and from the Corporation and the approval, ratification and adoption of any documents or agreements executed and any action taken.

FURTHER RESOLVED, that the officers of the Corporation be, and they hereby are, authorized and directed to execute and deliver on behalf of the Corporation all agreements and documents contemplated by the Plan, together with any and all documents and related agreements deemed necessary or desirable by said officer or officers to effectuate the foregoing, each in accordance with the recitations contained herein, and containing such further and different terms and conditions as said officer or officers will deem necessary or desirable to accomplish the objectives set forth herein, and further, that the execution by the officers, or any one of them, of any such document or agreement, or the doing by them of any act in connection with the foregoing matter, will conclusively establish their authority therefor from this Board and from the Corporation and the approval, ratification and adoption of any documents or agreements executed and any action taken.

THIRD: The merger has been approved by a majority of the outstanding stock of the Corporation entitled to vote thereon at a meeting duly called and held after twenty days' notice of the purpose of the meeting mailed to each such stockholder at his address as it appears in the records of the Corporation.

FOURTH: Chesapeake Oklahoma hereby agrees that it may be served with process in the state of Delaware in any proceeding for enforcement of any obligation of any constituent corporation of Delaware, as well as for enforcement of any obligation of Chesapeake Oklahoma arising from the merger, including any suit or other proceeding to enforce the right of any shareholders as determined in appraisal proceedings pursuant to the provisions of Section 262 of the Delaware General Corporation Law, and hereby irrevocably appoints the Secretary of State of the State of Delaware as its agent to accept service of process in any such suit or other proceeding. The address to which a copy of such process shall be mailed by the Secretary of State of Delaware is 6100 N. Western Avenue, Oklahoma City, OK 73118.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be signed by its President and attested to by its Secretary effective the 13th day of December, 1996.

CHESAPEAKE ENERGY CORPORATION

THOMAS L. WARD
Thomas L. Ward
President

ATTEST:

JANICE DOBBS
Janice Dobbs
Secretary
[Seal]

CERTIFICATE OF INCORPORATION
OF
CHESAPEAKE OKLAHOMA CORPORATION

ARTICLE I

Name

The name of the Corporation is:

CHESAPEAKE OKLAHOMA CORPORATION

ARTICLE II

Registered Office and Agent

The address of the Corporation's registered office in the State of Oklahoma is 6104 N. Western Avenue, Oklahoma City, Oklahoma 73118. The Corporation's registered agent at such address is Janice A. Dobbs.

ARTICLE III

Purposes

The nature of the business and the purpose of the Corporation shall be to engage in any lawful act or activity and to pursue any lawful purpose for which a corporation may be formed under the Oklahoma General Corporation Act (the "Act"). The Corporation is authorized to exercise and enjoy all powers, rights and privileges which corporations organized under the Act may have as in force from time to time, including, without limitation, all powers, rights and privileges necessary or convenient to carry out the purposes of the Corporation.

ARTICLE IV

Capital Stock

The total number of shares of capital stock which the Corporation shall have authority to issue is One Hundred Ten Million (110,000,000) shares, consisting of Ten Million (10,000,000) shares of Preferred Stock, par value $0.01 per share and One Hundred Million (100,000,000) shares of Common Stock, par value $0.01 per share. The preferences, qualifications, limitations, restrictions and the special or relative rights in respect of the shares of each class are as follows:

Section 1. Preferred Stock. The Preferred Stock may be issued from time to time in one or more series. All shares of Preferred Stock shall be of equal rank and shall be identical, except in respect of the matters that may be fixed and determined by the board of directors as hereinafter provided, and each share of each series shall be identical with all other shares of such series, except as to the date from which dividends are cumulative. The board of directors hereby is authorized to cause such shares to be issued in one or more series and with respect to each such series prior to the issuance thereof to fix and determine the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof.

The authority of the board with respect to each series shall include but not be limited to, determination of the following:

A. The number of shares constituting a series, the distinctive designation of a series and the stated value of the series, if different from the par value;

B. Whether the shares of a series are entitled to any fixed or determinable dividends, the dividend rate (if any) on the shares, whether the dividends are cumulative and the relative rights of priority of dividends on shares of that series;

C. Whether a series has voting rights in addition to the voting rights provided by law and the terms and conditions of such voting rights;

D. Whether a series will have or receive conversion or exchange privileges and the terms and conditions of such conversion or exchange privileges;

E. Whether or not the shares of a series are redeemable and the terms and conditions of such redemption, including, without limitation, the manner of selecting shares for redemption if less than all shares are to be redeemed, the date or dates on or after which the shares in the series will be redeemable and the amount payable in case of redemption;

F. Whether a series will have a sinking fund for the redemption or purchase of the shares in the series and the terms and the amount of such sinking fund;

G. The right of a series to the benefit of conditions and restrictions on the creation of indebtedness of the Corporation or any subsidiary, on the issuance of any additional capital stock (including additional shares of such series or any other series), on the payment of dividends or the making of other distributions on any outstanding stock of the Corporation and the purchase, redemption or other acquisition by the Corporation, or any subsidiary, of any outstanding stock of the Corporation;

H. The rights of a series in the event of voluntary or involuntary liquidation, dissolution or winding up of the corporation and the relative rights of priority of payment of a series; and

I. Any other relative, participating, optional or other special rights, qualifications, limitations or restrictions of such series.

Dividends on outstanding shares of Preferred Stock shall be paid or set apart for payment before any dividends shall be paid or declared or set apart for payment on the common shares with respect to the same dividend period.

If upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation the assets available for distribution to holders of shares of Preferred Stock of all series shall be insufficient to pay such holders the full preferential amount to which they are entitled, then such assets shall be distributed ratably among the shares of all series in accordance with the respective preferential amounts (including unpaid cumulative dividends, if any) payable with respect thereto.

Section 2. Common Stock. The Common Stock shall be subject to the express terms of the Preferred Stock and any series thereof. Each share of Common Stock shall be equal to every other share of Common Stock. The holders of shares of Common Stock shall be entitled to one vote for each share of such stock upon all matters presented to the shareholders. Shares of Common Stock authorized hereby shall not be subject to preemptive rights. The holders of shares of Common Stock now or hereafter outstanding shall have no preemptive right to purchase or have offered to them for purchase any of such authorized but unissued shares. The holders of shares of Common Stock now or hereafter outstanding shall have no preemptive right to purchase or have offered to them for purchase any shares of Preferred Stock, Common stock, or other equity securities issued or to be issued by the Company.

Subject to the preferential and other dividend rights applicable to Preferred Stock, the holders of shares of Common Stock shall be entitled to receive such dividends (payable in cash, stock or otherwise) as may be declared on the Common Stock by the Board of Directors at any time or from time to time out of any funds legally available therefor.

In the event of any voluntary or involuntary liquidation, distribution or winding up of the Corporation, after distribution in full of the preferential and/or other amounts to be distributed to the holders of shares of Preferred Stock, the holders of shares of Common Stock shall be entitled to receive all of the remaining assets of the Corporation available for distribution to its shareholders, ratably in proportion to the number of shares of Common Stock held by them.

ARTICLE V

Limitation of Director Liability

A director of the Corporation shall not be personally liable to the Corporation or its shareholders for damages for breach of fiduciary duty as a director, except for personal liability for (i) acts or omissions by such director not in good faith or which involve intentional misconduct or a knowing violation of law; (ii) the payment of dividends or the redemption or purchase of stock in violation of Section 1053 of the Act; (iii) any breach of such director's duty of loyalty to the Corporation or its shareholders; or (iv) any transaction from which such director derived an improper personal benefit.

ARTICLE VI

Certain Stock Purchases

Section 1. Certain Definitions. For the purposes of this Article VI:

"Continuing Director" means any member of the Board of Directors of the Corporation (the "Board") who is unaffiliated with the Interested Shareholder and was a member of the Board prior to the time that the Interested Shareholder became an Interested Shareholder, and any successor of a Continuing Director who is unaffiliated with the Interested Shareholder and is recommended to succeed a Continuing Director by a majority of Continuing Directors then on the Board.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Fair Market Value" means: (1) in the case of stock, the highest closing sale price during the 30-day period ending on the date in question of a share of such stock on a principal United States securities exchange registered under the Exchange Act on which such stock is listed or in the national market system maintained by the National Association of Securities Dealers, Inc., or, if the stock is not listed on any such exchange or designated as a national market system security, the highest closing bid quotation with respect to a share of such stock during the 30-day period ending on the date in question on the National Association of Securities Dealers, Inc. Automated Quotations system or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by the Board in good faith.

"Interested Shareholder" shall have the meaning ascribed to such term under Section 1090.3 of the Act.

Section 2. Vote Required for Certain Stock Purchases.

A. Any direct or indirect purchase by the Corporation, or any subsidiary of the Corporation, of any capital stock from a person or persons known by a majority of the Continuing Directors of the Corporation to be an Interested Shareholder who has beneficially owned such capital stock for less than three years prior to the date of such purchase, or any agreement in respect thereof, at a price in excess of the Fair Market Value shall require the affirmative vote of no less than 66 2/3% of the votes cast by the holders, voting together as a single class, of all then outstanding shares of capital stock, excluding for this purpose the votes by the Interested Shareholder, unless a greater vote shall be required by law.

B. Such affirmative vote shall not be required for a purchase or other acquisition of securities of the same class made on substantially the same terms to all holders of such securities and complying with the applicable requirements of the Exchange Act, and the rules and regulations thereunder (or any subsequent provisions replacing the Exchange Act, rules or regulations). Furthermore, such affirmative vote shall not be required for any purchase effected on the open market and not the result of a privately-negotiated transaction.

Section 3. Powers of Continuing Directors. The Continuing Directors of the Corporation shall have the power and duty to determine for the purposes of this Article VI, on the basis of information known to them after reasonable inquiry, whether a person is an Interested Shareholder, and the number of shares of capital stock owned beneficially by any person.

ARTICLE VII

Board of Directors

Section 1. Management by Board of Directors. The business and affairs of the Corporation shall be under the direction of the Board of Directors.

Section 2. Number of Directors. The number of Directors which shall constitute the whole board shall be not less than three nor more than fifteen, and shall be determined by resolution adopted by a vote of two-thirds (2/3) of the entire board, or at an annual or special meeting of shareholders by the affirmative vote of sixty-six and two-third percent (66 2/3%) of the outstanding stock entitled to vote. No reduction in number shall have the effect of removing any director prior to the expiration of his term. The number of directors of the Corporation may, from time to time, be increased or decreased in such manner as may be provided in the bylaws of the Corporation.

Section 3. Classes of Directors; Election by Shareholders; Vacancies. The directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. The term of the initial Class I directors shall terminate on the date of the 1997 annual meeting of shareholders; the term of the initial Class II directors shall terminate on the date of the 1998 annual meeting of shareholders and the term of the initial Class III directors shall terminate on the date of the 1999 annual meeting of shareholders. At each annual meeting of shareholders beginning in 1997, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional directors of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any incumbent director. A director shall hold office until the annual meeting for the year in which his term expires and until his successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office. Any vacancy on the Board of directors, however resulting, may be filled by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director. Any director elected to fill a vacancy shall hold office for a term that shall coincide with the term of the class to which such director shall have been elected. No election of directors need be by written ballot.

Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of the Certificate of Designation attributable to such Preferred stock or the resolution or resolutions adopted by the Board of Directors pursuant to Section 2 of this Article VII applicable thereto, and such directors so elected shall not be divided into classes pursuant to this Article VII unless expressly provided by such terms.

ARTICLE VIII

Indemnity

Section 1. Third Party Claims. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture or other enterprise against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interest of the Corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interest of the Corporation and with respect to any criminal action or proceeding had reasonable cause to believe that his conduct was unlawful.

Section 2. Derivative Claims. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorney's fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interest of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the court in which such action or suit was brought shall determine, upon application, that despite the adjudication of liability, but in the view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

Section 3. Expenses. Expenses, including fees and expenses of counsel, incurred in defending a civil, criminal, administrative or investigative action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized herein.

Section 4. Insurance. The Corporation may purchase (upon resolution duly adopted by the board of directors) and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability.

Section 5. Reimbursement. To the extent that a director, officer, employee or agent of, or any other person entitled to indemnity hereunder by, the Corporation has been successful on the merits or otherwise in defense of any action, suit, or proceeding referred to herein or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

Section 6. Enforcement. Every such person shall be entitled, without demand by him upon the Corporation or any action by the Corporation, to enforce his right to such indemnity in an action at law against the Corporation. The right of indemnification and advancement of expenses hereinabove provided shall not be deemed exclusive of any rights to which any such person may now or hereafter be otherwise entitled and specifically, without limiting the generality of the foregoing, shall not be deemed exclusive of any rights pursuant to statute or otherwise, of any such person in any such action, suit or proceeding to have assessed or allowed in his favor against the Corporation or otherwise, his costs and expenses incurred therein or in connection therewith or any part thereof.

ARTICLE IX

Amendments; Bylaws; Control Shares Act; Written Consent

Section 1. Amendments to Certificate of Incorporation. Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the issued and outstanding stock having voting power, voting together as a single class, shall be required to amend, repeal or adopt any provision inconsistent with Articles V, VI, VII, VIII and this Article IX of this Certificate of Incorporation.

Section 2. Bylaws. Prior to the receipt of any payment for any of the Corporation's stock, the Bylaws of the Corporation shall be adopted, amended or repealed by the Incorporator. Thereafter, in furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to adopt, repeal, alter, amend or rescind the Bylaws of the Corporation. In addition, the Bylaws of the Corporation may be adopted, repealed, altered, amended, or rescinded by the affirmative vote of the holders of sixty-six and two-thirds percent (66 2/3%) of the outstanding stock of the Corporation entitled to vote thereon.

Section 3. Control Shares Act. The Corporation shall not be subject to the Oklahoma Control Shares Act as codified at Sections 1145-1155 of the Act. This election shall be effective on the date of filing this Certificate.

Section 4. Action By Written Consent. Any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes which would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of corporate action without a meeting by less than unanimous written consent shall be given to those shareholders who have not consented in writing.

ARTICLE X

Incorporator

The name and mailing address of the Incorporator is as follows:

W. Chris Coleman — Tenth Floor, Two Leadership Square, Oklahoma City, OK 73102

I, the undersigned, for the purpose of forming a corporation under the laws of the State of Oklahoma, do make, file and record this Certificate, and do certify that the facts herein stated are true, and I have accordingly hereunto set my hand this 18th day of October, 1996.

W. CHRIS COLEMAN
W. Chris Coleman

CONSENT TO SIMILAR NAME

TO THE SECRETARY OF STATE OF THE STATE OF OKLAHOMA;

Pursuant to 18 O.S. 1986 Supp. Section 1141 or 54 O.S. Supp. 1984, Section 303, whichever is applicable, the undersigned corporation or limited partnership hereby consents to the use of the name or a similar name.

1. The name of the consenting corporation or limited partnership is:

CHESAPEAKE LIMITED PARTNERSHIP

and is organized under the laws of the State of Oklahoma.

2. The proposed name of the corporation or limited partnership to which this consent is given is:

CHESAPEAKE OKLAHOMA CORPORATION

and is organized or is to be organized under the laws of the State of Oklahoma.

3. In the event the proposed corporation name is identical to the consenting corporation's name the consenting corporation is about to:

A. Change its name _____.
B. Cease to do business X.
C. Withdraw from Oklahoma _____.
D. Be wound up _____.

IN WITNESS WHEREOF, this corporation or limited partnership has caused this consent to be executed this 14th day of November, 1996.

CHESAPEAKE OPERATING, INC., General Partner

By TOM L. WARD
Tom L. Ward, Chief Operating Officer

ATTEST:

JANICE A. DOBBS
Janice A. Dobbs, Secretary

EXHIBIT 4.1.1

FIRST SUPPLEMENTAL INDENTURE
TO INDENTURE DATED MARCH 15, 1997
(7.875%)

FIRST SUPPLEMENTAL INDENTURE dated as of December 17, 1997, among CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation (the "Company"), the SUBSIDIARY GUARANTORS listed as signatories hereto, UNITED STATES TRUST COMPANY OF NEW YORK, a New York corporation, as Trustee to the Indenture (as such term is defined in Article I below) and CHESAPEAKE ENERGY LOUISIANA CORPORATION, an Oklahoma corporation ("CELC"), CHESAPEAKE CANADA CORPORATION, an Alberta, Canada corporation ("CCC") and CHESAPEAKE LOUISIANA, L.P., an Oklahoma limited partnership ("CLLP").

WHEREAS, the Company, the Subsidiary Guarantors and the Trustee have heretofore entered into the Original Indenture, pursuant to the provisions of which the Company has heretofore issued $150,000,000 in aggregate principal amount of the Securities;

WHEREAS, the Company has formed CELC, CCC and CLLP as wholly owned Subsidiaries of the Company;

WHEREAS, the Board of Directors of the Company has adopted resolutions designating CELC, CCC and CLLP as Restricted Subsidiaries, as that term is defined in the Indenture;

WHEREAS, Section 10.3(b) of the Indenture provides, among other things, that the Company will cause each Subsidiary that shall become a Restricted Subsidiary after the Issue Date to execute and deliver a supplemental indenture pursuant to which such Restricted Subsidiary shall guarantee the payment of the Securities pursuant to the terms of the Indenture;

WHEREAS, Section 10.3(c) of the Indenture provides, among other things, that a Person may become a Subsidiary Guarantor by executing and delivering to the Trustee (i) a supplemental indenture which is in form and substance satisfactory to the Trustee and which subjects such Person to the provisions (including the representations and warranties) of the Indenture as a Subsidiary Guarantor and (ii) an Opinion of Counsel and Officer's Certificate that such supplemental indenture has been duly authorized and executed by such Person and constitutes the legal, valid, binding and enforceable obligation of such Person;

WHEREAS, the form and substance of this First Supplemental Indenture are satisfactory to the Trustee;

WHEREAS, contemporaneously herewith, there are being delivered to the Trustee an executed Opinion of Counsel and Officers' Certificate proper in form and substance;]

WHEREAS, Section 9.1 of the Indenture provides, among other things, that the Trustee, the Subsidiary Guarantors and the Company may amend or supplement the

Indenture without notice to or consent of any Holder to reflect the addition of any Subsidiary Guarantor, as provided for by the Indenture; and

WHEREAS, the execution and delivery of this First Supplemental Indenture have been duly authorized by the Company, the Subsidiary Guarantors, CELC, CCC and CLLP and all actions necessary to make this First Supplemental Indenture a valid and binding instrument according to its terms and the terms of the Original Indenture have been performed.

NOW, THEREFORE, BY THIS FIRST SUPPLEMENTAL INDENTURE, for and in consideration of the premises and of the mutual covenants herein contained and for other valuable considerations, the receipt whereof is hereby acknowledged, the Company, the Subsidiary Guarantors, CELC, CCC and CLLP covenant and agree with the Trustee, for the equal benefit of all present and future Holders of the Securities, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1 The definitions set forth in or incorporated by reference in Article I of the Indenture shall be applicable to this First Supplemental Indenture, as fully and to the same extent as if set forth herein, except as otherwise expressly provided herein. As used in this First Supplemental Indenture, the following terms shall have the following meanings:

"Indenture" means the Original Indenture, as amended by this First Supplemental Indenture, relating to the Securities.

"Original Indenture" means the Indenture dated as of March 15, 1997, among the Company, the Subsidiary Guarantors listed as signatories thereto and the Trustee, relating to the Securities.

ARTICLE II

ADDITION OF SUBSIDIARY GUARANTOR

SECTION 2.1 As a Subsidiary Guarantor, each of CELC, CCC and CLLP hereby: (a) jointly and severally, unconditionally guarantees to each Holder and to the Trustee the due and punctual payment of the principal of, premium, if any, and interest on the Securities and all other amounts due and payable under the Indenture and the Securities by the Company, whether at maturity, by acceleration, redemption, repurchase or otherwise including, without limitation, interest on the overdue principal of, premium, if any, and interest on the Securities to the extent lawful, all in accordance with the terms and subject to the limitations of the Indenture as if each of CELC, CCC and CLLP had been an original party thereto; and (b)

subjects each of CELC, CCC and CLLP to the provisions (including the representations and warranties) of the Indenture as a Subsidiary Guarantor.

ARTICLE III

MISCELLANEOUS

SECTION 3.1 This First Supplemental Indenture is a supplemental indenture pursuant to Section 9.1 of the Indenture. Upon execution and delivery of this First Supplemental Indenture, the terms and conditions of this First Supplemental Indenture will be part of the terms and conditions of the Indenture for any and all purposes, and all the terms and conditions of both shall be read together as though they constitute one instrument, except that in case of conflict, the provisions of this First Supplemental Indenture will control.

SECTION 3.2 Except as they have been modified in this First Supplemental Indenture, each and every term and provision of the Indenture shall remain in full force and effect.

SECTION 3.3 This First Supplemental Indenture may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute but one and the same instrument.

SECTION 3.4 This First Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York without giving effect to applicable principals of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed as of the date first written above.

CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation

By /s/ AUBREY K. McCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE ENERGY LOUISIANA CORPORATION, an Oklahoma corporation

By /s/ AUBREY K. McCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE CANADA CORPORATION, an Alberta, Canada corporation

By /s/ AUBREY K. McCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE LOUISIANA, L.P., an Oklahoma limited partnership

By Chesapeake Operating, Inc., an Oklahoma corporation, Sole General Partner

By /s/ AUBREY K. McCLENDON

Aubrey K. McClendon, Chief Executive Officer

UNITED STATES TRUST COMPANY OF NEW YORK, a New York corporation, as Trustee

By

Name:

Title:

SUBSIDIARY GUARANTORS

CHESAPEAKE OPERATING, INC., an Oklahoma corporation

By /s/ AUBREY K. McCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, an Oklahoma limited partnership

By Chesapeake Operating, Inc., an Oklahoma corporation, Sole General Partner

By /s/ AUBREY K. McCLENDON

Aubrey K. McClendon, Chief Executive Officer

SECOND SUPPLEMENTAL INDENTURE
TO INDENTURE DATED MARCH 15, 1997

7 7/8% SERIES A AND SERIES B SENIOR NOTES DUE 2004

SECOND SUPPLEMENTAL INDENTURE dated as of February 16, 1998, among CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation (the "Company"), the SUBSIDIARY GUARANTORS listed as signatories hereto and UNITED STATES TRUST COMPANY OF NEW YORK, a New York corporation, as Trustee to the Indenture (as such term is defined in Article I below).

WHEREAS, the Company, the Subsidiary Guarantors and the Trustee have heretofore entered into the Original Indenture, pursuant to the provisions of which the Company has heretofore issued $150,000,000 in aggregate principal amount of the Securities;

WHEREAS, Section 9.1(1) of the Indenture provides that the Company, the Subsidiary Guarantors and the Trustee may amend or supplement the Indenture without notice to or consent of any Holder to cure any ambiguity, defect or inconsistency therein; and

WHEREAS, the execution and delivery of this Second Supplemental Indenture have been duly authorized by the Company and the Subsidiary Guarantors and all actions necessary to make this Second Supplemental Indenture a valid and binding instrument according to its terms and the terms of the Original Indenture have been performed.

NOW, THEREFORE, BY THIS SECOND SUPPLEMENTAL INDENTURE, for and in consideration of the premises and of the mutual covenants herein contained and for other valuable considerations, the receipt whereof is hereby acknowledged, the Company and the Subsidiary Guarantors covenant and agree with the Trustee, for the equal benefit of all present and future Holders of the Securities, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1 The definitions set forth in or incorporated by reference in Article I of the Indenture shall be applicable to this Second Supplemental Indenture, as fully and to the same extent as if set forth herein, except as otherwise expressly provided herein. As used in this Second Supplemental Indenture, the following terms shall have the following meanings:

"Indenture" means the Original Indenture, as amended by this Second Supplemental Indenture, relating to the Securities.

"Original Indenture" means the Indenture dated as of March 15, 1997, among the Company, the Subsidiary Guarantors listed as signatories thereto and the Trustee, relating

to the Securities, as amended by that certain First Supplemental Indenture dated as of December 17, 1997.

ARTICLE II

AMENDMENT OF SECTION 10.4

SECTION 2.1 The first sentence of Section 10.4(a) is hereby amended to read in its entirety as follows:

"If, at any time while the Securities remain outstanding, none of the Company's then outstanding Pari Passu Indebtedness (other than the Securities) is guaranteed by a Restricted Subsidiary, such Restricted Subsidiary shall be released and relieved of its obligations under: (a) its Guarantee (which shall be terminated and cease to have any force and effect); and (b) Section 10.3(b) to provide any such Guarantee."

ARTICLE III

MISCELLANEOUS

SECTION 3.1 This Second Supplemental Indenture is a supplemental indenture pursuant to Section 9.1 of the Indenture. Upon execution and delivery of this Second Supplemental Indenture, the terms and conditions of this Second Supplemental Indenture will be part of the terms and conditions of the Indenture for any and all purposes, and all the terms and conditions of both shall be read together as though they constitute one instrument, except that in case of conflict, the provisions of this Second Supplemental Indenture will control.

SECTION 3.2 Except as they have been modified in this Second Supplemental Indenture, each and every term and provision of the Indenture shall remain in full force and effect.

SECTION 3.3 This Second Supplemental Indenture may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute but one and the same instrument.

SECTION 3.4 This Second Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York without giving effect to applicable principals of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed as of the date first written above.

CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon, Chief Executive Officer

UNITED STATES TRUST COMPANY OF NEW YORK, a New York corporation, as Trustee

By /s/ PATRICIA STERMER

Name: Patricia Stermer

Title:Assistant Vice President

SUBSIDIARY GUARANTORS

CHESAPEAKE OPERATING, INC., an Oklahoma corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, an Oklahoma limited partnership

By Chesapeake Operating, Inc., an Oklahoma corporation, Sole General Partner

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon,
Chief Executive Officer

CHESAPEAKE ENERGY LOUISIANA
CORPORATION, an Oklahoma corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE CANADA CORPORATION, an
Alberta, Canada corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE LOUISIANA, L.P., an
Oklahoma limited partnership

By Chesapeake Operating, Inc., an
Oklahoma corporation, Sole General Partner

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon,
Chief Executive Officer

EXHIBIT 4.2.1

FIRST SUPPLEMENTAL INDENTURE
TO INDENTURE DATED MARCH 15, 1997
(8.5%)

FIRST SUPPLEMENTAL INDENTURE dated as of December 17th, 1997, among CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation (the "Company"), the SUBSIDIARY GUARANTORS listed as signatories hereto, UNITED STATES TRUST COMPANY OF NEW YORK, a New York corporation, as Trustee to the Indenture (as such term is defined in Article I below) and CHESAPEAKE ENERGY LOUISIANA CORPORATION, an Oklahoma corporation ("CELC"), CHESAPEAKE CANADA CORPORATION, an Alberta, Canada corporation ("CCC") and CHESAPEAKE LOUISIANA, L.P., an Oklahoma limited partnership ("CLLP").

WHEREAS, the Company, the Subsidiary Guarantors and the Trustee have heretofore entered into the Original Indenture, pursuant to the provisions of which the Company has heretofore issued $150,000,000 in aggregate principal amount of the Securities;

WHEREAS, the Company has formed CELC, CCC and CLLP as wholly owned Subsidiaries of the Company;

WHEREAS, the Board of Directors of the Company has adopted resolutions designating CELC, CCC and CLLP as Restricted Subsidiaries, as that term is defined in the Indenture;

WHEREAS, Section 10.3(b) of the Indenture provides, among other things, that the Company will cause each Subsidiary that shall become a Restricted Subsidiary after the Issue Date to execute and deliver a supplemental indenture pursuant to which such Restricted Subsidiary shall guarantee the payment of the Securities pursuant to the terms of the Indenture;

WHEREAS, Section 10.3(c) of the Indenture provides, among other things, that a Person may become a Subsidiary Guarantor by executing and delivering to the Trustee (i) a supplemental indenture which is in form and substance satisfactory to the Trustee and which subjects such Person to the provisions (including the representations and warranties) of the Indenture as a Subsidiary Guarantor and (ii) an Opinion of Counsel and Officer's Certificate that such supplemental indenture has been duly authorized and executed by such Person and constitutes the legal, valid, binding and enforceable obligation of such Person;

WHEREAS, the form and substance of this First Supplemental Indenture are satisfactory to the Trustee;

WHEREAS, contemporaneously herewith, there are being delivered to the Trustee an executed Opinion of Counsel and Officers' Certificate proper in form and substance;]

WHEREAS, Section 9.1 of the Indenture provides, among other things, that the Trustee, the Subsidiary Guarantors and the Company may amend or supplement the

Indenture without notice to or consent of any Holder to reflect the addition of any Subsidiary Guarantor, as provided for by the Indenture; and

WHEREAS, the execution and delivery of this First Supplemental Indenture have been duly authorized by the Company, the Subsidiary Guarantors, CELC, CCC and CLLP and all actions necessary to make this First Supplemental Indenture a valid and binding instrument according to its terms and the terms of the Original Indenture have been performed.

NOW, THEREFORE, BY THIS FIRST SUPPLEMENTAL INDENTURE, for and in consideration of the premises and of the mutual covenants herein contained and for other valuable considerations, the receipt whereof is hereby acknowledged, the Company, the Subsidiary Guarantors, CELC, CCC and CLLP covenant and agree with the Trustee, for the equal benefit of all present and future Holders of the Securities, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1 The definitions set forth in or incorporated by reference in Article I of the Indenture shall be applicable to this First Supplemental Indenture, as fully and to the same extent as if set forth herein, except as otherwise expressly provided herein. As used in this First Supplemental Indenture, the following terms shall have the following meanings:

"Indenture" means the Original Indenture, as amended by this First Supplemental Indenture, relating to the Securities.

"Original Indenture" means the Indenture dated as of March 15, 1997, among the Company, the Subsidiary Guarantors listed as signatories thereto and the Trustee, relating to the Securities.

ARTICLE II

ADDITION OF SUBSIDIARY GUARANTOR

SECTION 2.1 As a Subsidiary Guarantor, each of CELC, CCC and CLLP hereby: (a) jointly and severally, unconditionally guarantees to each Holder and to the Trustee the due and punctual payment of the principal of, premium, if any, and interest on the Securities and all other amounts due and payable under the Indenture and the Securities by the Company, whether at maturity, by acceleration, redemption, repurchase or otherwise including, without limitation, interest on the overdue principal of, premium, if any, and interest on the Securities to the extent lawful, all in accordance with the terms and subject to the limitations of the Indenture as if each of CELC, CCC and CLLP had been an original party thereto; and (b)

subjects each of CELC, CCC and CLLP to the provisions (including the representations and warranties) of the Indenture as a Subsidiary Guarantor.

ARTICLE III

MISCELLANEOUS

SECTION 3.1 This First Supplemental Indenture is a supplemental indenture pursuant to Section 9.1 of the Indenture. Upon execution and delivery of this First Supplemental Indenture, the terms and conditions of this First Supplemental Indenture will be part of the terms and conditions of the Indenture for any and all purposes, and all the terms and conditions of both shall be read together as though they constitute one instrument, except that in case of conflict, the provisions of this First Supplemental Indenture will control.

SECTION 3.2 Except as they have been modified in this First Supplemental Indenture, each and every term and provision of the Indenture shall remain in full force and effect.

SECTION 3.3 This First Supplemental Indenture may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute but one and the same instrument.

SECTION 3.4 This First Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York without giving effect to applicable principals of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed as of the date first written above.

CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon,
Chief Executive Officer

CHESAPEAKE ENERGY LOUISIANA CORPORATION, an Oklahoma corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon,
Chief Executive Officer

CHESAPEAKE CANADA CORPORATION, an Alberta, Canada corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon,
Chief Executive Officer

CHESAPEAKE LOUISIANA, L.P., an Oklahoma limited partnership

By Chesapeake Operating, Inc., an Oklahoma corporation, Sole General Partner

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon,
Chief Executive Officer

UNITED STATES TRUST COMPANY OF NEW YORK, a New York corporation, as Trustee

By

Name:

Title:

SUBSIDIARY GUARANTORS

CHESAPEAKE OPERATING, INC., an Oklahoma corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon,
Chief Executive Officer

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, an Oklahoma limited partnership

By Chesapeake Operating, Inc., an Oklahoma corporation, Sole General Partner

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon,
Chief Executive Officer

SECOND SUPPLEMENTAL INDENTURE
TO INDENTURE DATED MARCH 15, 1997

8 1/2% SERIES A AND SERIES B SENIOR NOTES DUE 2012

SECOND SUPPLEMENTAL INDENTURE dated as of February 16, 1998, among CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation (the "Company"), the SUBSIDIARY GUARANTORS listed as signatories hereto and UNITED STATES TRUST COMPANY OF NEW YORK, a New York corporation, as Trustee to the Indenture (as such term is defined in Article I below).

WHEREAS, the Company, the Subsidiary Guarantors and the Trustee have heretofore entered into the Original Indenture, pursuant to the provisions of which the Company has heretofore issued $150,000,000 in aggregate principal amount of the Securities;

WHEREAS, Section 9.1(1) of the Indenture provides that the Company, the Subsidiary Guarantors and the Trustee may amend or supplement the Indenture without notice to or consent of any Holder to cure any ambiguity, defect or inconsistency therein; and

WHEREAS, the execution and delivery of this Second Supplemental Indenture have been duly authorized by the Company and the Subsidiary Guarantors and all actions necessary to make this Second Supplemental Indenture a valid and binding instrument according to its terms and the terms of the Original Indenture have been performed.

NOW, THEREFORE, BY THIS SECOND SUPPLEMENTAL INDENTURE, for and in consideration of the premises and of the mutual covenants herein contained and for other valuable considerations, the receipt whereof is hereby acknowledged, the Company and the Subsidiary Guarantors covenant and agree with the Trustee, for the equal benefit of all present and future Holders of the Securities, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1 The definitions set forth in or incorporated by reference in Article I of the Indenture shall be applicable to this Second Supplemental Indenture, as fully and to the same extent as if set forth herein, except as otherwise expressly provided herein. As used in this Second Supplemental Indenture, the following terms shall have the following meanings:

"Indenture" means the Original Indenture, as amended by this Second Supplemental Indenture, relating to the Securities.

"Original Indenture" means the Indenture dated as of March 15, 1997, among the Company, the Subsidiary Guarantors listed as signatories thereto and the Trustee, relating

to the Securities, as amended by that certain First Supplemental Indenture dated as of December 17, 1997.

ARTICLE II

AMENDMENT OF SECTION 10.4

SECTION 2.1 The first sentence of Section 10.4(a) is hereby amended to read in its entirety as follows:

"If, at any time while the Securities remain outstanding, none of the Company's then outstanding Pari Passu Indebtedness (other than the Securities) is guaranteed by a Restricted Subsidiary, such Restricted Subsidiary shall be released and relieved of its obligations under: (a) its Guarantee (which shall be terminated and cease to have any force and effect); and (b) Section 10.3(b) to provide any such Guarantee."

ARTICLE III

MISCELLANEOUS

SECTION 3.1 This Second Supplemental Indenture is a supplemental indenture pursuant to Section 9.1 of the Indenture. Upon execution and delivery of this Second Supplemental Indenture, the terms and conditions of this Second Supplemental Indenture will be part of the terms and conditions of the Indenture for any and all purposes, and all the terms and conditions of both shall be read together as though they constitute one instrument, except that in case of conflict, the provisions of this Second Supplemental Indenture will control.

SECTION 3.2 Except as they have been modified in this Second Supplemental Indenture, each and every term and provision of the Indenture shall remain in full force and effect.

SECTION 3.3 This Second Supplemental Indenture may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute but one and the same instrument.

SECTION 3.4 This Second Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York without giving effect to applicable principals of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed as of the date first written above.

CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon, Chief Executive Officer

UNITED STATES TRUST COMPANY OF NEW YORK, a New York corporation, as Trustee

By /s/ PATRICIA STERMER

Name: PATRICIA STERMER

Title: ASSISTAND VICE PRESIDENT

SUBSIDIARY GUARANTORS

CHESAPEAKE OPERATING, INC., an Oklahoma corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, an Oklahoma limited partnership

By Chesapeake Operating, Inc., an Oklahoma corporation, Sole General Partner

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon,
Chief Executive Officer

CHESAPEAKE ENERGY LOUISIANA
CORPORATION, an Oklahoma corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE CANADA CORPORATION, an
Alberta, Canada corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE LOUISIANA, L.P., an
Oklahoma limited partnership

By Chesapeake Operating, Inc., an
Oklahoma corporation, Sole General
Partner

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon,
Chief Executive Officer

EXHIBIT 4.3.1

FIRST SUPPLEMENTAL INDENTURE
TO INDENTURE DATED MAY 15, 1995

FIRST SUPPLEMENTAL INDENTURE, dated as of December 30, 1996, among CHESAPEAKE ENERGY CORPORATION, a Delaware corporation (the "Company"), the SUBSIDIARY GUARANTORS listed as signatories hereto, UNITED STATES TRUST COMPANY OF NEW YORK, a New York corporation, as Trustee, to the Indenture (as such term is defined in Article I below) and CHESAPEAKE OKLAHOMA CORPORATION, an Oklahoma corporation ("Chesapeake Oklahoma").

WHEREAS, the Company, the Subsidiary Guarantors and the Trustee have heretofore entered into the Original Indenture, pursuant to the provisions of which the Company has heretofore issued $90,000,000 in aggregate principal amount of the Securities; and

WHEREAS, in order to realize a significant annual savings in franchise taxes, the Company and its shareholders have approved the change of the Company's state of incorporation from Delaware to Oklahoma, with such reincorporation to be accomplished by the merger effective December 31, 1996 of the Company with and into its wholly- owned subsidiary, Chesapeake Oklahoma (the "Merger");

WHEREAS, immediately following the Merger, Chesapeake Oklahoma will be renamed Chesapeake Energy Corporation and continue conducting business as the successor to business, management, assets, and liabilities of the Company;

WHEREAS, Section 5.01 of the Indenture provides, among other things, that the Company may merge with any Person provided the Company delivers to the Trustee prior to the consummation of the transaction, an Officers' Certificate and Opinion of Counsel stating that the transaction and related supplemental indenture comply with the Indenture;

WHEREAS, Section 9.01 of the Indenture provides, among other things, that the Trustee, the Subsidiary Guarantors and the Company may amend or supplement the Indenture without notice to or consent of any Holders to reflect a merger complying with Section 5.01; and

WHEREAS, the execution and delivery of this First Supplemental Indenture have been duly authorized by the Company, the Subsidiary Guarantors, and Chesapeake Oklahoma and all actions necessary to make this First Supplemental Indenture a valid and binding instrument according to its terms and the terms of the Original Indenture have been performed.

NOW, THEREFORE, THIS FIRST SUPPLEMENTAL INDENTURE WITNESSETH that, for and in consideration of the premises and of the mutual covenants herein contained and for other valuable considerations, the receipt whereof is hereby acknowledged, the Company, the Subsidiary Guarantors, and Chesapeake Oklahoma covenant and agree with the Trustee, for the equal benefit of all present and future Holders of the Securities, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1 The definitions set forth in or incorporated by reference in Article I of the Indenture shall be applicable to this First Supplemental Indenture, as fully and to the same extent as if set forth herein, except as otherwise expressly provided herein. As used in this First Supplemental Indenture, the following terms shall have the following meanings:

"Indenture" means the Original Indenture, as amended by this First Supplemental Indenture, relating to the Securities.

"Original Indenture" means the Indenture dated as of May 15, 1995, among the Company, the Subsidiary Guarantors listed as signatories thereto and the Trustee, relating to the Securities.

ARTICLE II

ASSUMPTION OF COMPANY OBLIGATIONS

SECTION 2.1 As the surviving entity in the Merger with the Company, effective upon the consummation of the Merger, Chesapeake Oklahoma hereby assumes the due and punctual payment of the principal of, premium, if any, and interest on, all the Securities and the performance of every other covenant and obligation of the Company under the Indenture.

SECTION 2.2 Pursuant to Section 5.02 of the Indenture, upon consummation of the Merger, Chesapeake Oklahoma succeeds to, and is substituted for, and may exercise every right and power of, the Company under the Indenture with the same effect as if Chesapeake Oklahoma had been named as the Company therein and thereafter, the Company will be relieved of all further obligations and covenants under the Indenture and the Securities.

ARTICLE III

MISCELLANEOUS

SECTION 3.1 This First Supplemental Indenture is a supplemental indenture pursuant to Section 9.01 of the Indenture. Upon execution and delivery of this First Supplemental Indenture, the terms and conditions of this First Supplemental Indenture will be part of the terms and conditions of the Indenture for any and all purposes, and all the terms and conditions of both shall be read together as though they constitute one instrument, except that in case of conflict, the provisions of this First Supplemental Indenture will control.

SECTION 3.2 Except as they have been modified in this First Supplemental Indenture, each and every term and provision of the Indenture shall remain in full force and effect.

SECTION 3.3 This First Supplemental Indenture may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute but one and the same instrument.

SECTION 3.4 This First Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York without giving effect to applicable principals of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed as of the date first written above.

CHESAPEAKE ENERGY CORPORATION

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon
Chief Executive Officer

CHESAPEAKE OKLAHOMA CORPORATION

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon
Chief Executive Officer

UNITED STATES TRUST COMPANY OF NEW YORK, as Trustee

By /s/ PATRICIA STERMER

Patricia Stermer
Assistant Vice President

SUBSIDIARY GUARANTORS

CHESAPEAKE OPERATING, INC.
LINDSAY OIL FIELD SUPPLY, INC.
SANDER TRUCKING COMPANY, INC.
WHITMIRE DOZER SERVICE, INC.

For each of the above:

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon
President

CHESAPEAKE EXPLORATION LIMITED
PARTNERSHIP, an Oklahoma limited partnership

By: Chesapeake Operating, Inc., an Oklahoma
General Partner

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon
President

SECOND SUPPLEMENTAL INDENTURE
TO INDENTURE DATED MAY 15, 1995

SECOND SUPPLEMENTAL INDENTURE dated as of December 17, 1997, among CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation (the "Company"), the SUBSIDIARY GUARANTORS listed as signatories hereto, UNITED STATES TRUST COMPANY OF NEW YORK, a New York corporation, as Trustee to the Indenture (as such term is defined in Article I below) and CHESAPEAKE ENERGY LOUISIANA CORPORATION, an Oklahoma corporation ("CELC"), CHESAPEAKE CANADA CORPORATION, an Alberta, Canada corporation("CCC") and CHESAPEAKE LOUISIANA, L.P., an Oklahoma limited partnership ("CLLP").

WHEREAS, the Company, the Subsidiary Guarantors and the Trustee have heretofore entered into the Original Indenture, pursuant to the provisions of which the Company has heretofore issued $90,000,000 in aggregate principal amount of the Securities;

WHEREAS, the Company has formed CELC, CCC and CLLP as wholly owned Subsidiaries of the Company;

WHEREAS, the Board of Directors of the Company has adopted resolutions designating CELC, CCC and CLLP as Restricted Subsidiaries, as that term is defined in the Indenture;

WHEREAS, Section 10.03(a) of the Indenture provides, among other things, that the Company will cause each Subsidiary that shall become a Restricted Subsidiary after the Issue Date to execute and deliver a supplemental indenture pursuant to which such Restricted Subsidiary shall guarantee the payment of the Securities pursuant to the terms of the Indenture;

WHEREAS, Section 10.03(b) of the Indenture provides, among other things, that a Person may become a Subsidiary Guarantor by executing and delivering to the Trustee (i) a supplemental indenture which is in form and substance satisfactory to the Trustee and which subjects such Person to the provisions (including the representations and warranties) of the Indenture as a Subsidiary Guarantor and (ii) an Opinion of Counsel and Officer's Certificate that such supplemental indenture has been duly authorized and executed by such Person and constitutes the legal, valid, binding and enforceable obligation of such Person;

WHEREAS, the form and substance of this Second Supplemental Indenture are satisfactory to the Trustee;

WHEREAS, contemporaneously herewith, there are being delivered to the Trustee an executed Opinion of Counsel and Officers' Certificate proper in form and substance;

WHEREAS, Section 9.01 of the Indenture provides, among other things, that the Trustee, the Subsidiary Guarantors and the Company may amend or supplement the

Indenture without notice to or consent of any Holder to reflect the addition of any Subsidiary Guarantor, as provided for by the Indenture; and

WHEREAS, the execution and delivery of this Second Supplemental Indenture have been duly authorized by the Company, the Subsidiary Guarantors, CELC, CCC and CLLP and all actions necessary to make this Second Supplemental Indenture a valid and binding instrument according to its terms and the terms of the Original Indenture have been performed.

NOW, THEREFORE, BY THIS SECOND SUPPLEMENTAL INDENTURE, for and in consideration of the premises and of the mutual covenants herein contained and for other valuable considerations, the receipt whereof is hereby acknowledged, the Company, the Subsidiary Guarantors, CELC, CCC and CLLP covenant and agree with the Trustee, for the equal benefit of all present and future Holders of the Securities, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1 The definitions set forth in or incorporated by reference in Article I of the Indenture shall be applicable to this Second Supplemental Indenture, as fully and to the same extent as if set forth herein, except as otherwise expressly provided herein. As used in this Second Supplemental Indenture, the following terms shall have the following meanings:

"Indenture" means the Original Indenture, as amended by this Second Supplemental Indenture, relating to the Securities.

"Original Indenture" means the Indenture dated as of May 15, 1995, among the Company, the Subsidiary Guarantors listed as signatories thereto and the Trustee, relating to the Securities, as amended by that certain First Supplemental Indenture dated as of December 30, 1996.

ARTICLE II

ADDITION OF SUBSIDIARY GUARANTOR

SECTION 2.1 As a Subsidiary Guarantor, each of CELC, CCC and CLLP hereby: (a) jointly and severally, unconditionally guarantees to each Holder and to the Trustee the due and punctual payment of the principal of, premium, if any, and interest on the Securities and all other amounts due and payable under the Indenture and the Securities by the Company, whether at maturity, by acceleration, redemption, repurchase or otherwise including, without limitation, interest on the overdue principal of, premium, if any, and interest on the Securities to the extent lawful, all in accordance with the terms and subject to the limitations of the Indenture as if each of CELC, CCC and CLLP had been an original party thereto; and (b)

subjects each of CELC, CCC and CLLP to the provisions (including the representations and warranties) of the Indenture as a Subsidiary Guarantor.

ARTICLE III

MISCELLANEOUS

SECTION 3.1 This Second Supplemental Indenture is a supplemental indenture pursuant to Section 9.01 of the Indenture. Upon execution and delivery of this Second Supplemental Indenture, the terms and conditions of this Second Supplemental Indenture will be part of the terms and conditions of the Indenture for any and all purposes, and all the terms and conditions of both shall be read together as though they constitute one instrument, except that in case of conflict, the provisions of this Second Supplemental Indenture will control.

SECTION 3.2 Except as they have been modified in this Second Supplemental Indenture, each and every term and provision of the Indenture shall remain in full force and effect.

SECTION 3.3 This Second Supplemental Indenture may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute but one and the same instrument.

SECTION 3.4 This Second Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York without giving effect to applicable principals of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed as of the date first written above.

CHESAPEAKE ENERGY CORPORATION, an
Oklahoma corporation

By /s/ AUBREY K. McCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE ENERGY LOUISIANA
CORPORATION, an Oklahoma corporation

By /s/ AUBREY K. McCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE CANADA CORPORATION, an
Alberta, Canada corporation

By /s/ AUBREY K. McCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE LOUISIANA, L.P., an
Oklahoma limited partnership

By Chesapeake Operating, Inc., an
Oklahoma corporation, Sole General
Partner

By /s/ AUBREY K. McCLENDON

Aubrey K. McClendon,
Chief Executive Officer

UNITED STATES TRUST COMPANY OF NEW YORK,
a New York corporation, as Trustee

By

Name:

Title:

SUBSIDIARY GUARANTORS

CHESAPEAKE OPERATING, INC., an Oklahoma
corporation

By /s/ AUBREY K. McCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP,
an Oklahoma limited partnership

By Chesapeake Operating, Inc., an Oklahoma
corporation, Sole General Partner

By /s/ AUBREY K. McCLENDON

Aubrey K. McClendon,
Chief Executive Officer

EXHIBIT 4.4.1

FIRST SUPPLEMENTAL INDENTURE
TO INDENTURE DATED APRIL 1, 1996

FIRST SUPPLEMENTAL INDENTURE, dated as of December 30, 1996, among CHESAPEAKE ENERGY CORPORATION, a Delaware corporation (the "Company"), the SUBSIDIARY GUARANTORS listed as signatories hereto, UNITED STATES TRUST COMPANY OF NEW YORK, a New York corporation, as Trustee, to the Indenture (as such term is defined in Article I below) and CHESAPEAKE OKLAHOMA CORPORATION, an Oklahoma corporation ("Chesapeake Oklahoma").

WHEREAS, the Company, the Subsidiary Guarantors and the Trustee have heretofore entered into the Original Indenture, pursuant to the provisions of which the Company has heretofore issued $120,000,000 in aggregate principal amount of the Securities; and

WHEREAS, in order to realize a significant annual savings in franchise taxes, the Company and its shareholders have approved the change of the Company's state of incorporation from Delaware to Oklahoma, with such reincorporation to be accomplished by the merger effective December 31, 1996 of the Company with and into its wholly-owned subsidiary, Chesapeake Oklahoma (the "Merger");

WHEREAS, immediately following the Merger, Chesapeake Oklahoma will be renamed Chesapeake Energy Corporation and continue conducting business as the successor to business, management, assets, and liabilities of the Company;

WHEREAS, Section 5.01 of the Indenture provides, among other things, that the Company may merge with any Person provided the Company delivers to the Trustee prior to the consummation of the transaction, an Officers' Certificate and Opinion of Counsel stating that the transaction and related supplemental indenture comply with the Indenture;

WHEREAS, Section 9.01 of the Indenture provides, among other things, that the Trustee, the Subsidiary Guarantors and the Company may amend or supplement the Indenture without notice to or consent of any Holders to reflect a merger complying with Section 5.01; and

WHEREAS, the execution and delivery of this First Supplemental Indenture have been duly authorized by the Company, the Subsidiary Guarantors, and Chesapeake Oklahoma and all actions necessary to make this First Supplemental Indenture a valid and binding instrument according to its terms and the terms of the Original Indenture have been performed.

NOW, THEREFORE, THIS FIRST SUPPLEMENTAL INDENTURE WITNESSETH that, for and in consideration of the premises and of the mutual covenants herein contained and for other valuable considerations, the receipt whereof is hereby acknowledged, the Company, the Subsidiary Guarantors, and Chesapeake Oklahoma covenant and agree with the Trustee, for the equal benefit of all present and future Holders of the Securities, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1 The definitions set forth in or incorporated by reference in Article I of the Indenture shall be applicable to this First Supplemental Indenture, as fully and to the same extent as if set forth herein, except as otherwise expressly provided herein. As used in this First Supplemental Indenture, the following terms shall have the following meanings:

"Indenture" means the Original Indenture, as amended by this First Supplemental Indenture, relating to the Securities.

"Original Indenture" means the Indenture dated as of April 1, 1996 among the Company, the Subsidiary Guarantors listed as signatories thereto and the Trustee, relating to the Securities.

ARTICLE II

ASSUMPTION OF COMPANY OBLIGATIONS

SECTION 2.1 As the surviving entity in the Merger with the Company, effective upon the consummation of the Merger, Chesapeake Oklahoma hereby assumes the due and punctual payment of the principal of, premium, if any, and interest on, all the Securities and the performance of every other covenant and obligation of the Company under the Indenture.

SECTION 2.2 Pursuant to Section 5.02 of the Indenture, upon consummation of the Merger, Chesapeake Oklahoma succeeds to, and is substituted for, and may exercise every right and power of, the Company under the Indenture with the same effect as if Chesapeake Oklahoma had been named as the Company therein and thereafter, the Company will be relieved of all further obligations and covenants under the Indenture and the Securities.

ARTICLE III

MISCELLANEOUS

SECTION 3.1 This First Supplemental Indenture is a supplemental indenture pursuant to Section 9.01 of the Indenture. Upon execution and delivery of this First Supplemental Indenture, the terms and conditions of this First Supplemental Indenture will be part of the terms and conditions of the Indenture for any and all purposes, and all the terms and conditions of both shall be read together as though they constitute one instrument, except that in case of conflict, the provisions of this First Supplemental Indenture will control.

SECTION 3.2 Except as they have been modified in this First Supplemental Indenture, each and every term and provision of the Indenture shall remain in full force and effect.

SECTION 3.3 This First Supplemental Indenture may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute but one and the same instrument.

SECTION 3.4 This First Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York without giving effect to applicable principals of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed as of the date first written above.

CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon, Chief Executive Officer

UNITED STATES TRUST COMPANY OF NEW YORK, as Trustee

By /s/ PATRICIA STERMER

PATRICIA STERMER
Assistant Vice President

SUBSIDIARY GUARANTORS

CHESAPEAKE OPERATING, INC.
LINDSAY OIL FIELD SUPPLY, INC.
SANDER TRUCKING COMPANY, INC.
WHITMIRE DOZER SERVICE, INC.

For each of the above:

By /s/ AUBREY K. McCLENDON

Aubrey K. McClendon
President

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP,
an Oklahoma limited partnership

By: Chesapeake Operating, Inc., an Oklahoma corporation, Sole General Partner

By /s/ AUBREY K. McCLENDON

Aubrey K. McClendon
President

SECOND SUPPLEMENTAL INDENTURE
TO INDENTURE DATED APRIL 1, 1996

SECOND SUPPLEMENTAL INDENTURE dated as of December 17th, 1997, among CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation (the "Company"), the SUBSIDIARY GUARANTORS listed as signatories hereto, UNITED STATES TRUST COMPANY OF NEW YORK, a New York corporation, as Trustee to the Indenture (as such term is defined in Article I below) and CHESAPEAKE ENERGY LOUISIANA CORPORATION, an Oklahoma corporation ("CELC"), CHESAPEAKE CANADA CORPORATION, an Alberta, Canada corporation ("CCC") and CHESAPEAKE LOUISIANA, L.P., an Oklahoma limited partnership ("CLLP").

WHEREAS, the Company, the Subsidiary Guarantors and the Trustee have heretofore entered into the Original Indenture, pursuant to the provisions of which the Company has heretofore issued $120,000,000 in aggregate principal amount of the Securities;

WHEREAS, the Company has formed CELC, CCC and CLLP as wholly owned Subsidiaries of the Company;

WHEREAS, the Board of Directors of the Company has adopted resolutions designating CELC, CCC and CLLP as Restricted Subsidiaries, as that term is defined in the Indenture;

WHEREAS, Section 10.03(a) of the Indenture provides, among other things, that the Company will cause each Subsidiary that shall become a Restricted Subsidiary after the Issue Date to execute and deliver a supplemental indenture pursuant to which such Restricted Subsidiary shall guarantee the payment of the Securities pursuant to the terms of the Indenture;

WHEREAS, Section 10.03(b) of the Indenture provides, among other things, that a Person may become a Subsidiary Guarantor by executing and delivering to the Trustee (i) a supplemental indenture which is in form and substance satisfactory to the Trustee and which subjects such Person to the provisions (including the representations and warranties) of the Indenture as a Subsidiary Guarantor and (ii) an Opinion of Counsel and Officer's Certificate that such supplemental indenture has been duly authorized and executed by such Person and constitutes the legal, valid, binding and enforceable obligation of such Person;

WHEREAS, the form and substance of this Second Supplemental Indenture are satisfactory to the Trustee;

WHEREAS, contemporaneously herewith, there are being delivered to the Trustee an executed Opinion of Counsel and Officers' Certificate proper in form and substance;]

WHEREAS, Section 9.01 of the Indenture provides, among other things, that the Trustee, the Subsidiary Guarantors and the Company may amend or supplement the

Indenture without notice to or consent of any Holder to reflect the addition of any Subsidiary Guarantor, as provided for by the Indenture; and

WHEREAS, the execution and delivery of this Second Supplemental Indenture have been duly authorized by the Company, the Subsidiary Guarantors, CELC, CCC and CLLP and all actions necessary to make this Second Supplemental Indenture a valid and binding instrument according to its terms and the terms of the Original Indenture have been performed.

NOW, THEREFORE, BY THIS SECOND SUPPLEMENTAL INDENTURE, for and in consideration of the premises and of the mutual covenants herein contained and for other valuable considerations, the receipt whereof is hereby acknowledged, the Company, the Subsidiary Guarantors, CELC, CCC and CLLP covenant and agree with the Trustee, for the equal benefit of all present and future Holders of the Securities, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1 The definitions set forth in or incorporated by reference in Article I of the Indenture shall be applicable to this Second Supplemental Indenture, as fully and to the same extent as if set forth herein, except as otherwise expressly provided herein. As used in this Second Supplemental Indenture, the following terms shall have the following meanings:

"Indenture" means the Original Indenture, as amended by this Second Supplemental Indenture, relating to the Securities.

"Original Indenture" means the Indenture dated as of April 1, 1996, among the Company, the Subsidiary Guarantors listed as signatories thereto and the Trustee, relating to the Securities, as amended by that certain First Supplemental Indenture dated as of December 30, 1996.

ARTICLE II

ADDITION OF SUBSIDIARY GUARANTOR

SECTION 2.1 As a Subsidiary Guarantor, each of CELC, CCC and CLLP hereby: (a) jointly and severally, unconditionally guarantees to each Holder and to the Trustee the due and punctual payment of the principal of, premium, if any, and interest on the Securities and all other amounts due and payable under the Indenture and the Securities by the Company, whether at maturity, by acceleration, redemption, repurchase or otherwise including, without limitation, interest on the overdue principal of, premium, if any, and interest on the Securities to the extent lawful, all in accordance with the terms and subject to the limitations of the Indenture as if each of CELC, CCC and CLLP had been an original party thereto; and (b)

subjects each of CELC, CCC and CLLP to the provisions (including the representations and warranties) of the Indenture as a Subsidiary Guarantor.

ARTICLE III

MISCELLANEOUS

SECTION 3.1 This Second Supplemental Indenture is a supplemental indenture pursuant to Section 9.01 of the Indenture. Upon execution and delivery of this Second Supplemental Indenture, the terms and conditions of this Second Supplemental Indenture will be part of the terms and conditions of the Indenture for any and all purposes, and all the terms and conditions of both shall be read together as though they constitute one instrument, except that in case of conflict, the provisions of this Second Supplemental Indenture will control.

SECTION 3.2 Except as they have been modified in this Second Supplemental Indenture, each and every term and provision of the Indenture shall remain in full force and effect.

SECTION 3.3 This Second Supplemental Indenture may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute but one and the same instrument.

SECTION 3.4 This Second Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York without giving effect to applicable principals of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed as of the date first written above.

CHESAPEAKE ENERGY CORPORATION, an
Oklahoma corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE ENERGY LOUISIANA
CORPORATION, an Oklahoma corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE CANADA CORPORATION, an
Alberta, Canada corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon, Chief Executive Officer

CHESAPEAKE LOUISIANA, L.P., an
Oklahoma limited partnership

By Chesapeake Operating, Inc., an
Oklahoma corporation, Sole General
Partner

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon,
Chief Executive Officer

UNITED STATES TRUST COMPANY OF NEW YORK,
a New York corporation, as Trustee

By /s/ PATRICIA STERMER

Name: PATRICIA STERMER

Title: ASSISTANT VICE PRESIDENT

SUBSIDIARY GUARANTORS

CHESAPEAKE OPERATING, INC., an Oklahoma
corporation

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon, Chief Executive
Officer

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP,
an Oklahoma limited partnership

By Chesapeake Operating, Inc., an
Oklahoma corporation, Sole
General Partner

By /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon,
Chief Executive Officer

CREDIT AGREEMENT

CHESAPEAKE ACQUISITION CORPORATION

and

CHESAPEAKE MID-CONTINENT CORP.,

as Borrowers,

CHESAPEAKE MERGER CORP.,

CHESAPEAKE ACQUISITION CORP.

CHESAPEAKE COLUMBIA CORP.,

MID-CONTINENT GAS PIPELINE COMPANY, and

ANSON GAS MARKETING

as Initial Guarantors,

UNION BANK OF CALIFORNIA, N.A.

as Agent

and CERTAIN FINANCIAL INSTITUTIONS

as Lenders

March 9, 1998

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Schedules and Exhibits:

CREDIT AGREEMENT

THIS CREDIT AGREEMENT is made as of March 9, 1998, by and among CHESAPEAKE ACQUISITION CORPORATION, an Oklahoma corporation (herein called "CAC"), CHESAPEAKE MID-CONTINENT CORP., an Oklahoma corporation (herein called "CMC"), and a wholly owned subsidiary of CAC ("CAC and CMC collectively called "Borrower"), CHESAPEAKE MERGER CORP., an Oklahoma corporation (herein called "Chesapeake Merger"), CHESAPEAKE ACQUISITION CORP., a Kansas corporation (herein called "Chesapeake Acquisition"), CHESAPEAKE COLUMBIA CORP., an Oklahoma corporation, MID-CONTINENT GAS PIPELINE COMPANY, an Oklahoma general partnership, and ANSON GAS MARKETING, an Oklahoma general partnership, UNION BANK OF CALIFORNIA, N.A., individually and as administrative agent (herein called "Agent"), certain Co-Agents named on the signature pages hereto and the Lenders referred to below. In consideration of the mutual covenants and agreements contained herein the parties hereto agree as follows:

ARTICLE I - Definitions and References

Section 1.1. Defined Terms. As used in this Agreement, each of the following terms has the meaning given it in this Section 1.1 or in the sections and subsections referred to below:

"Acquisition Documents" means (i) the Agreement and Plan of Merger among Parent, Chesapeake Merger and DLB Oil & Gas, Inc. dated October 22, 1997, as amended, and (ii) the Agreement and Plan of Merger among Parent, Chesapeake Acquisition and Hugoton Energy Corporation dated as of November 12, 1997, as amended.

"Affiliate" means, as to any Person, each other Person that directly or indirectly (through one or more intermediaries or otherwise) controls, is controlled by, or is under common control with, such Person. A Person shall be deemed to be "controlled by" any other Person if such other Person possesses, directly or indirectly, power

(a) to vote 20% or more of the securities (on a fully diluted basis) having ordinary voting power for the election of directors or managing general partners; or

(b) to direct or cause the direction of the management and policies of such Person whether by contract or otherwise.

"Agent" means Union Bank of California, N.A., as Agent hereunder, and its successors in such capacity.

"Agreement" means this Credit Agreement.

"Applicable Initial Borrowing Base" means (i) at any time that the DLB Merger, but not the Hugoton Merger, has occurred, $86,813,000, (ii) at any time that the Hugoton Merger, but not the DLB Merger, has occurred, $167,774,000, (iii) at any time after both the DLB Merger and the Hugoton Merger have occurred, $200,000,000.

"Applicable Lending Office" means, with respect to each Lender, such Lender's Domestic Lending Office in the case of Base Rate Loans and such Lender's Eurodollar Lending Office in the case of Eurodollar Loans.

"Applicable Utilization Level" means on any date the level set forth below that corresponds to the percentage, at the close of business on such day, equivalent to the (i) Facility Usage divided by (ii) the Borrowing Base (the "Utilization Percent"):

Applicable Utilization Level	Utilization Percent
Level I	less than or equal to 33%
Level II	greater than 33% but less than or equal to 60%
Level III	greater than 60% but less than or equal to 85%
Level IV	greater than 85%

"Bank Parties" means Agent and all Lenders.

"Base Rate" means the higher of (a) Agent's Reference Rate and (b) the Federal Funds Rate plus one-half percent (0.5%) per annum. As used in this paragraph, Agent's "Reference Rate" means that variable rate of interest per annum established by Agent from time to time as its "reference rate" (which rate of interest may not be the lowest rate charged on similar loans). Each change in the Base Rate shall become effective without prior notice to Borrower automatically as of the opening of business on the date of such change in the Base Rate. The Base Rate shall in no event, however, exceed the Highest Lawful Rate.

"Base Rate Loan" means a Loan which bears interest at the Base Rate.

"Base Rate Margin" means, on any date, with respect to each Base Rate portion of a Loan, the number of basis points per annum set forth below based on the Applicable Utilization Level on such date:

Applicable Utilization Level	Base Rate Margin
Level I	0 b.p.
Level II	0 b.p.
Level III	12.5 b.p.
Level IV	25.0 b.p.

Changes in the applicable Base Rate Margin will occur automatically without prior notice as changes in the Applicable Utilization Level occur. Agent will give notice promptly to Borrower and the Lenders of changes in the Base Rate Margin.

"Borrower" means Chesapeake Acquisition Corporation and Chesapeake Mid-Continent Corp., jointly and severally.

"Borrowing" means a borrowing of new Loans of a single Type pursuant to Section 2.2 or a continuation or conversion of existing Loans into a single Type (and, in the case of Eurodollar Loans, with the same Interest Period) pursuant to Section 2.3.

"Borrowing Base" means, at the particular time in question, either the amount provided for in Section 2.8 or the amount determined by Agent and Required Lenders in accordance with the provisions of Section 2.9, as reduced by Borrower pursuant to Section 2.10.

"Borrowing Base Fee Rate" means, on any date, the number of basis points per annum set forth below, based on the Applicable Utilization Level on such date:

Applicable Utilization Level	Borrowing Base Fee Rate
Level I	15.0 b.p.
Level II	20.0 b.p.
Level III	25.0 b.p.
Level IV	30.0 b.p.

"Borrowing Notice" means a written or telephonic request, or a written confirmation, made by Borrower which meets the requirements of Section 2.2.

"Business Day" means a day, other than a Saturday or Sunday, on which commercial banks are open for business with the public in Los Angeles, California. Any Business Day in any way relating to Eurodollar Loans (such as the day on which an Interest Period begins or ends) must also be a day on which, in the judgment of Agent, significant transactions in dollars are carried out in the interbank eurocurrency market.

"Cash Equivalents" means investments in:

(a) marketable obligations, maturing within 12 months after acquisition thereof, issued or unconditionally guaranteed by the United States of America or an instrumentality or agency thereof and entitled to the full faith and credit of the United States of America;

(b) demand deposits, and time deposits (including certificates of deposit) maturing within 12 months from the date of deposit thereof, with any office of any Lender or with a domestic office of any national or state bank or trust company which is organized under the Laws of the United States of

America or any state therein, which has capital, surplus and undivided profits of at least $500,000,000, and whose certificates of deposit have at least the third highest credit rating given by either Rating Agency;

(c) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (a) above entered into with any commercial bank meeting the specifications of clause (b) above;

(d) open market commercial paper, maturing within 270 days after acquisition thereof, which has the highest or second highest credit rating given by either Rating Agency.

(e) investments in money market or other mutual funds substantially all of whose assets comprise securities of the types described in clauses (a) through (d) above.

"Change of Control" means the occurrence of any of the following events: (i) any Person other than Parent shall acquire any beneficial ownership of CAC, or any Person other than CAC shall acquire any beneficial ownership of any Restricted Person (other than beneficial interests held by another Restricted Person), (ii) any Person or two or more Persons acting as a group shall acquire beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Act of 1934, as amended, and including holding proxies to vote for the election of directors other than proxies held by Parent's management or their designees to be voted in favor of Persons nominated by Parent's Board of Directors) of 35% or more of the outstanding voting securities of Parent, measured by voting power (including both common stock and any preferred stock or other equity securities entitling the holders thereof to vote with the holders of common stock in elections for directors of Parent), (iii) one-third or more of the directors of Parent shall consist of Persons not nominated by Parent's Board of Directors (not including as Board nominees any directors which the Board is obligated to nominate pursuant to shareholders agreements, voting trust arrangements or similar arrangements) or (iv) neither Aubrey K. McClendon nor Tom Ward shall be executive officers and directors of Parent.

"Chesapeake Acquisition" means Chesapeake Acquisition Corp., a Kansas corporation and a wholly owned subsidiary of CAC.

"Chesapeake Merger" means Chesapeake Merger Corp., an Oklahoma corporation, and a wholly owned Subsidiary of CAC.

"CMC" means Chesapeake Mid-Continent Corp., an Oklahoma corporation, and a wholly owned subsidiary of CAC.

"Commitment Fee Rate" means, on any date, the number of basis points per annum set forth below based on the Applicable Utilization Level on such date:

Applicable Utilization Level	Commitment Fee Rate
Level I	20 b.p.
Level II	25 b.p.
Level III	30 b.p.
Level IV	37.5 b.p.

Changes in the applicable Commitment Fee Rate will occur automatically without prior notice as changes in the Applicable Utilization Level occur. Agent will give notice promptly to Borrower and the Lenders of changes in the Commitment Fee Rate.

"Commitment Period" means the period from and including the date hereof until and including March 9, 2002 (or, if earlier, the day on which the commitments of the Lenders are terminated pursuant to Section 8.1, or the day the Notes first become due and payable in full).

"Consolidated" refers to the consolidation of any Person, in accordance with GAAP, with its properly consolidated subsidiaries. References herein to a Person's Consolidated financial statements, financial position, financial condition, liabilities, etc. refer to the consolidated financial statements, financial position, financial condition, liabilities, etc. of such Person and its properly consolidated subsidiaries.

"Consolidated EBITDA" means, for any four-Fiscal Quarter period, the sum of (1) the Consolidated net income of Borrower during such period, plus (2) Consolidated Interest Expense of Borrower during such period, plus (3) all income taxes which were deducted in determining such Consolidated net income, plus (4) all depreciation, amortization (including amortization of good will and debt issue costs) and other non-cash charges (including any provision for the reduction in the carrying value of assets recorded in accordance with GAAP) which were deducted in determining such Consolidated net income, minus (5) all non-cash items of income which were included in determining such Consolidated net income.

"Consolidated Interest Expense" means, for any four-Fiscal Quarter period, all interest paid or accrued during such period on Indebtedness (including, but not limited to, accrued capitalized interest, amortization of original issue discount and the interest component of any deferred payment obligations and capital lease obligations) which was deducted in determining Consolidated net income of Borrower for such period.

"Consolidated Tangible Net Worth" means the remainder of all Consolidated assets of Borrower, other than intangible assets (including without limitation as intangible assets such assets as patents, copyrights, licenses, franchises, goodwill, trade names, trade secrets and leases other than oil, gas or mineral leases or leases required to be capitalized under GAAP), minus Borrower's Consolidated Liabilities.

"Continue", "Continuation", and "Continued" shall refer to the continuation pursuant to Section 2.3 hereof of a Eurodollar Loan from one Interest Period to the next Interest Period.

"Continuation/Conversion Notice" means a written or telephonic request, or a written confirmation, made by Borrower which meets the requirements of Section 2.3.

"Convert", "Conversion", and "Converted" shall refer to a conversion pursuant to Section 2.3 or Article X of one Type of Loan into another Type of Loan.

"Default" means any Event of Default and any default, event or condition which would, with the giving of any requisite notices and the passage of any requisite periods of time, constitute an Event of Default.

"Default Rate" means, at the time in question, three percent (3.0%) per annum plus the Base Rate (plus the Base Rate Margin) then in effect; provided that, with respect to any Eurodollar Loan with an Interest Period extending beyond the date such Eurodollar Loan becomes due and payable, "Default Rate" shall mean three percent (3.0%) per annum plus the related Eurodollar Rate (plus the Eurodollar Margin). The Default Rate shall never exceed the Highest Lawful Rate.

"Determination Date" has the meaning given it in Section 2.9.

"Disclosure Report" means either a notice given by Borrower under Section 6.4 or a certificate given by Borrower's chief financial officer under Section 6.2(b).

"Disclosure Schedule" means Schedule 1 hereto.

"Distribution" means (a) any dividend or other distribution made by a Restricted Person on or in respect of any stock, partnership interest, or other equity interest in such Restricted Person (including any option or warrant to buy such an equity interest), or (b) any payment made by a Restricted Person to purchase, redeem, acquire or retire any stock, partnership interest, or other equity interest in such Restricted Person (including any such option or warrant).

"DLB Merger" means the merger of Chesapeake Merger and DLB Oil & Gas, Inc. contemplated by the Acquisition Documents.

"Designated Affiliate Contracts" has the meaning given it in Section 4.3.

"Domestic Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Domestic Lending Office" below its name on the Lender Schedule attached hereto, or such other office as such Lender may from time to time specify to Borrower and Agent.

"Eligible Transferee" means a Person which either (a) is a Lender or an Affiliate of a Lender, or (b) is consented to as an Eligible Transferee by Agent and, so long as no Event of Default is continuing by Borrower, which consents in each case will not be unreasonably withheld (provided that no Person organized outside the United States may be an Eligible Transferee if Borrower would be required to pay withholding taxes on interest or principal owed to such Person).

"Engineering Report" means the Initial Engineering Report and each engineering report delivered pursuant to Section 6.2(f) and (g).

"Environmental Laws" means any and all Laws relating to the environment or to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes into the environment including ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, together with all rules and regulations promulgated with respect thereto.

"ERISA Affiliate" means Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control that, together with Borrower, are treated as a single employer under Section 414 of the Internal Revenue Code of 1986, as amended.

"ERISA Plan" means any employee pension benefit plan subject to Title IV of ERISA maintained by any ERISA Affiliate with respect to which any Restricted Person has a fixed or contingent liability.

"Eurodollar Loan" means a Loan which is properly designated as a Eurodollar Loan pursuant to Section 2.2 or 2.3.

"Eurodollar Margin" means, on any date, with respect to each Eurodollar portion of a Loan, the number of basis points per annum set forth below based on the Applicable Utilization Level on such date:

Applicable Utilization Level	Eurodollar Margin
Level I	75 b.p.
Level II	100 b.p.
Level III	125 b.p.
Level IV	150 b.p.

Changes in the applicable Eurodollar Margin will occur automatically without prior notice as changes in the Applicable Utilization Level occur. Agent will give notice promptly to Borrower and the Lenders of changes in the Eurodollar Margin

"Eurodollar Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Eurodollar Lending Office" below its name on the Lender Schedule attached hereto (or, if no such office is specified, its Domestic Lending Office), or such other office of such Lender as such Lender may from time to time specify to Borrower and Agent.

"Eurodollar Rate" means, with respect to each particular Eurodollar Loan and the associated LIBOR Rate and Reserve Percentage, the rate per annum calculated by Agent (rounded upwards, if necessary, to the next higher 0.01%) determined on a daily basis pursuant to the following formula:

Eurodollar Rate =

$$\frac{\text{LIBOR Rate}}{100.0\% - \text{Reserve Percentage}}$$

The Eurodollar Rate for any Eurodollar Loan shall change whenever the Reserve Percentage changes. No Eurodollar Rate shall ever exceed the Highest Lawful Rate.

"Event of Default" has the meaning given it in Section 8.1.

"Facility Usage" means, at the time in question, the aggregate amount of outstanding Loans and existing LC Obligations at such time.

"Federal Funds Rate" shall mean, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100th of one percent) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that (i) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if such rate is not so published for any day, the Federal Funds Rate for such day shall be the average rate quoted to Agent on such day on such transactions as determined by Agent.

"Fiscal Quarter" means a three-month period ending on March 31, June 30, September 30 or December 31 of any year.

"Fiscal Year" means a twelve-month period ending on December 31 of any year.

"GAAP" means those generally accepted accounting principles and practices which are recognized as such by the Financial Accounting Standards Board (or any generally recognized successor) and which, in the case of Borrower and its Consolidated subsidiaries, are applied for all periods after the date hereof in a manner consistent with the manner in which such principles and practices were applied to the Parent Initial Financial Statements. If any change in any accounting principle or practice is required by the Financial Accounting Standards Board (or any such successor) in order for such principle or practice to continue as a generally accepted accounting principle or practice, all reports and financial statements required hereunder with respect to Borrower or with respect to Borrower and its Consolidated subsidiaries may be prepared in accordance with such change, but all calculations and determinations to be made hereunder may be made in accordance with such change only after notice of such change is given to each Lender and Majority Lenders agree to such change insofar as it affects the accounting of Borrower or of Borrower and its Consolidated subsidiaries.

"Guarantor" means Chesapeake Merger, Chesapeake Acquisition and each other Subsidiary of CAC which now or hereafter executes and delivers a guaranty to Agent pursuant to Section 6.15 and any other Person who has guaranteed some or all of the Obligations and who has been accepted by Majority Lenders as a Guarantor.

"Hazardous Materials" means any substances regulated under any Environmental Law, whether as pollutants, contaminants, or chemicals, or as industrial, toxic or hazardous substances or wastes, or otherwise.

"Hedging Contract" means (a) any agreement providing for options, swaps, floors, caps, collars, forward sales or forward purchases involving interest rates, commodities or commodity prices, equities, currencies, bonds, or indexes based on any of the foregoing, (b) any option, futures or forward contract traded on an exchange, and (c) any other derivative agreement or other similar agreement or arrangement.

"Highest Lawful Rate" means, with respect to each Lender, the maximum nonusurious rate of interest that such Lender is permitted under applicable Law to contract for, take, charge, or receive with respect to its Loan. All determinations herein of the Highest Lawful Rate, or of any interest rate determined by reference to the Highest Lawful Rate, shall be made separately for each Lender as appropriate to assure that the Loan Documents are not construed to obligate any Person to pay interest to any Lender at a rate in excess of the Highest Lawful Rate applicable to such Lender.

"Hugoton Merger" means the merger of Chesapeake Acquisition and Hugoton Energy Corporation contemplated by the Acquisition Documents.

"Indebtedness" of any Person means Liabilities (without duplication) in any of the following categories:

(a) Liabilities for borrowed money,

(b) Liabilities constituting an obligation to pay the deferred purchase price of property or services,

(c) Liabilities evidenced by a bond, debenture, note or similar instrument,

(d) Liabilities which (i) would under GAAP be shown on such Person's balance sheet as a liability, and (ii) are payable more than one year from the date of creation thereof (other than reserves for taxes and reserves for contingent obligations),

(e) Liabilities arising under futures contracts, forward contracts, swap, cap or collar contracts, option contracts, hedging contracts, other derivative contracts, or similar agreements,

(f) Liabilities constituting principal under leases capitalized in accordance with GAAP,

(g) Liabilities arising under conditional sales or other title retention agreements,

(h) Liabilities owing under direct or indirect guaranties of Liabilities of any other Person or constituting obligations to purchase or acquire or to otherwise protect or insure a creditor against loss in respect of Liabilities of any other Person (such as obligations under working capital maintenance agreements, agreements to keep-well, or agreements to purchase Liabilities, assets, goods, securities or services), but excluding endorsements in the ordinary course of business of negotiable instruments in the course of collection,

(i) Liabilities (for example, repurchase agreements) consisting of an obligation to purchase securities or other property, if such Liabilities arises out of or in connection with the sale of the same or similar securities or property,

(j) Liabilities with respect to letters of credit or applications or reimbursement agreements therefor,

(k) Liabilities with respect to payments received in consideration of oil, gas, or other minerals yet to be acquired or produced at the time of payment (including obligations under "take-or-pay" contracts to deliver gas in return for payments already received and the undischarged balance of any production payment created by such Person or for the creation of which such Person directly or indirectly received payment), or

(l) Liabilities with respect to other obligations to deliver goods or services in consideration of advance payments therefor;

provided, however, that the "Indebtedness" of any Person shall not include Liabilities that were incurred by such Person on ordinary trade terms to vendors, suppliers, or other Persons providing goods and services for use by such Person in the ordinary course of its business, unless and until such Liabilities are outstanding more than 120 days past the original invoice or billing date therefor.

"Indentures" means the Indenture of Parent dated May 15, 1995 (the "1995 Indenture"), the Indenture of Parent dated April 1, 1996 (the "1996 Indenture") and the two Indentures of Parent dated March 15, 1997 (the "1997 Indentures").

"Initial Engineering Report" means, collectively, the engineering reports concerning oil and gas properties to be acquired pursuant to the Mergers dated June 30, 1997, prepared by Ryder Scott Company (with respect to the Hugoton Energy Corporation properties), dated January 1, 1998, prepared by Parent (with respect to the AnSon Production Corporation properties) and dated _____, 1996, prepared by DeGolyer & MacNaughton and H.J. Gudy and Associates, Inc. (with respect to the DLB Oil & Gas, Inc. properties).

"Initial Financial Statements" means (i) the audited annual Consolidated financial statements of Parent dated as of June 30, 1997, and (ii) the unaudited quarterly Consolidated financial statements of Parent dated as of September 30, 1997, and (iii) the pro-forma consolidated and consolidating financial statements of CAC, CMC (giving effect to its merger with AnSon Production Corporation, Chesapeake Merger (giving effect to the DLB Merger) and Chesapeake Acquisition (giving effect to the Hugoton Merger) using financial information for AnSon Production Corporation, DLB Oil & Gas, Inc. and Hugoton Energy Corporation as of September 30, 1997.

"Insurance Schedule" means Schedule 2 attached hereto.

"Interest Period" with respect to each Eurodollar Loan, the period commencing on the date of borrowing specified in the applicable Borrowing Notice or on the date specified in an applicable Notice of Interest Rate Election and ending one week or one, two, three, or six months thereafter, as the Borrower may elect in such notice; provided that: (a) any Interest Period (except an Interest Period determined pursuant to clause (c) below) which would otherwise end on a day which is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day; (b) any Interest Period which begins on the last Business Day in a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (c) below, end on the last Business Day in a calendar month; and (c) any Interest Period which would otherwise end after the last day of the Commitment Period shall end on the last day of the Commitment Period (or, if the last day of the Commitment Period is not a Business Day the next preceding Business Day).

"Investment" means any investment, in cash or by delivery of property made, directly or indirectly in any Person, whether by acquisition of shares of capital stock, indebtedness or other obligations or securities or by loan, advance, capital contribution or otherwise.

"Law" means any statute, law, regulation, ordinance, rule, treaty, judgment, order, decree, permit, concession, franchise, license, agreement or other governmental restriction of the United States or any state or political subdivision thereof or of any foreign country or any department, province or other political subdivision thereof.

"LC Application" means any application for a Letter of Credit hereafter made by Borrower to LC Issuer.

"LC Collateral" has the meaning given it in Section 2.16(a).

"LC Issuer" means Union Bank of California, N.A. in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity. Agent may, with the consent of Borrower and the Lender in question, appoint any Lender hereunder as the LC Issuer in place of or in addition to Union Bank of California, N.A.

"LC Obligations" means, at the time in question, the sum of all Matured LC Obligations plus the maximum amounts which LC Issuer might then or thereafter be called upon to advance under all Letters of Credit then outstanding.

"Lenders" means each signatory hereto (other than Borrower and Restricted Persons a party hereto), including Union Bank of California, N.A. in its capacity as a lender hereunder rather than as Agent or LC Issuer, and the successors of each such party as holder of a Note.

"Lending Office" means, with respect to any Lender, the office, branch, or agency through which it funds its Eurodollar Loans; with respect to LC Issuer, the office, branch, or agency through which it issues Letters of Credit; and, with respect to Agent, the office, branch, or agency through which it administers this Agreement.

"Letter of Credit" means any letter of credit issued by LC Issuer hereunder at the application of Borrower.

"Letter of Credit Fee Rate" means, on any date the number of basis points per annum set forth below based on the Applicable Utilization Level on such date:

Applicable Utilization Level	Commitment Fee Rate
Level I	75 b.p.
Level II	100 b.p.
Level III	125 b.p.
Level IV	150 b.p.

"Liabilities" means, as to any Person, all indebtedness, liabilities and obligations of such Person, whether matured or unmatured, liquidated or unliquidated, primary or secondary, direct or indirect, absolute, fixed or contingent, and whether or not required to be considered pursuant to GAAP.

"LIBOR Rate" means, with respect to each particular Eurodollar Loan and the related Interest Period, the rate of interest per annum determined by Agent in accordance with its customary general practices to be representative of the rates at which deposits of dollars are offered to Agent at approximately 9:00 a.m. New York, New York time two Business Days prior to the first day of such Interest Period (by prime banks in the interbank eurocurrency market which have been selected by Agent in accordance with its customary general practices) for delivery on the first day of such Interest Period in an amount equal or comparable to the amount of the applicable Eurodollar Loan and for a period of time equal or comparable to the length of such Interest Period. The Eurodollar Rate determined by Agent with respect to a particular Eurodollar Loan shall be fixed at such rate for the duration of the associated Interest Period. If Agent is unable so to determine the Eurodollar Rate for any Eurodollar Loan, Borrower shall be deemed not to have elected such Eurodollar Loan.

"Lien" means, with respect to any property or assets, any right or interest therein of a creditor to secure Liabilities owed to him or any other arrangement with such creditor which provides for the payment of such Liabilities out of such property or assets or which allows him to have such Liabilities satisfied out of such property or assets prior to the general creditors of any owner thereof, including any lien, mortgage, security interest, pledge, deposit, production payment, rights of a vendor under any title retention or conditional sale agreement or lease substantially equivalent thereto, tax lien, mechanic's or materialman's lien, or any other charge or encumbrance for security purposes, whether arising by Law or agreement or otherwise, but excluding any right of offset which arises without agreement in the ordinary course of business. "Lien" also means any filed financing statement, any registration of a pledge (such as with an issuer of uncertificated securities), or any other arrangement or action which would serve to perfect a Lien described in the preceding sentence, regardless of whether such financing statement is filed, such registration is made, or such arrangement or action is undertaken before or after such Lien exists.

"Loan" has the meaning given it in Section 2.1.

"Loan Documents" means this Agreement, the Notes, guaranties of the Obligations by each Subsidiary of Borrower, as listed on the Security Schedule, the Agreement of Representations, Warranties and Covenants of Parent, the stock pledge agreement of CAC as listed on the Security Schedule, the Letters of Credit, the LC Applications, and all other agreements, certificates, documents, instruments and writings at any time delivered in connection herewith or therewith (exclusive of term sheets, commitment letters, correspondence and similar documents used in the negotiation hereof, except to the extent the same contain information about Borrower or its Affiliates, properties, business or prospects).

"Majority Lenders" means Agent and Lenders whose aggregate Percentage Shares equal or exceed sixty-six and two-thirds percent (662/3%).

"Material Adverse Change" means a material and adverse change, from the state of affairs presented in the Borrower's pro-forma Initial Financial Statements or as represented or warranted in any Loan Document, to (a) Restricted Persons' Consolidated financial condition, (b) the operations or properties of Restricted Persons, considered as a whole, (c) Borrower's ability to timely pay the Obligations, or (d) the enforceability of the material terms of any Loan Documents.

"Matured LC Obligations" means all amounts paid by LC Issuer on drafts or demands for payment drawn or made under or purported to be under any Letter of Credit and all other amounts due and owing to LC Issuer under any LC Application for any Letter of Credit, to the extent the same have not been repaid to LC Issuer (with the proceeds of Loans or otherwise).

"Maximum Drawing Amount" means at the time in question the sum of the maximum amounts which LC Issuer might then or thereafter be called upon to advance under all Letters of Credit then outstanding.

"Mergers" means the mergers contemplated by the Acquisition Documents.

"Note" has the meaning given it in Section 2.1.

"Obligations" means all Liabilities from time to time owing by any Restricted Person to any Bank Party under or pursuant to any of the Loan Documents, including all LC Obligations.
"Obligation" means any part of the Obligations.

"Parent" means Chesapeake Energy Corporation, an Oklahoma corporation.

"Parent Affiliate" means Parent and each of Parent's Subsidiaries (other than the Restricted Persons).

"Percentage Share" means, with respect to any Lender (a) when used in Sections 2.1 or 2.5, in any Borrowing Notice or when no Loans are outstanding hereunder, the percentage set forth opposite such Lender's name on Lender Schedule attached hereto, and (b) when used otherwise, the percentage obtained by dividing (i) the sum of the unpaid principal balance of such Lender's Loans at the time in question plus the Matured LC Obligations which such Lender has funded pursuant to Section 2.13(c)

plus the portion of the Maximum Drawing Amount which such Lender might be obligated to fund under Section 2.13(c), by (ii) the sum of the aggregate unpaid principal balance of all Loans at such time plus the aggregate amount of LC Obligations outstanding at such time.

"Permitted Investments" means (i) Cash Equivalents and (ii) investments by Borrower in its wholly owned Subsidiaries provided that such Subsidiary is a Guarantor.

"Permitted Lien" has the meaning given to such term in Section 7.2.

"Person" means an individual, corporation, partnership, limited liability company, association, joint stock company, trust or trustee thereof, estate or executor thereof, unincorporated organization or joint venture, Tribunal, or any other legally recognizable entity.

"Rating Agency" means either Standard & Poor's Ratings Group (a division of McGraw Hill, Inc.) or Moody's Investors Service, Inc., or their respective successors.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect.

"Required Lenders" means Agent and Lenders whose aggregate Percentage Shares equal or exceed seventy-five percent (75%).

"Restricted Person" means any of Borrower and each Subsidiary of Borrower.

"Reserve Percentage" means, on any day with respect to each particular Eurodollar Loan, the maximum reserve requirement, as determined by Agent (including without limitation any basic, supplemental, marginal, emergency or similar reserves), expressed as a percentage and rounded to the next higher 0.01%, which would then apply under Regulation D with respect to "Eurocurrency liabilities", as such term is defined in Regulation D, of $1,000,000 or more. If such reserve requirement shall change after the date hereof, the Reserve Percentage shall be automatically increased or decreased, as the case may be, from time to time as of the effective time of each such change in such reserve requirement.

"Security Schedule" means Schedule 3 attached hereto.

"Subsidiary" means, with respect to any Person, any corporation, association, partnership, joint venture, or other business or corporate entity, enterprise or organization which is directly or indirectly (through one or more intermediaries) controlled by or owned fifty percent or more by such Person.

"Termination Event" means (a) the occurrence with respect to any ERISA Plan of (i) a reportable event described in Sections 4043(b)(5) or (6) of ERISA or (ii) any other reportable event described in Section 4043(b) of ERISA other than a reportable event not subject to the provision for 30-day notice to the Pension Benefit Guaranty Corporation pursuant to a waiver by such corporation under Section 4043(a) of ERISA, or (b) the withdrawal of any ERISA Affiliate from an ERISA Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA, or (c) the filing of a notice of intent to terminate any ERISA Plan or the treatment of any ERISA Plan amendment as a termination under Section 4041 of ERISA, or (d) the institution of proceedings to

terminate any ERISA Plan by the Pension Benefit Guaranty Corporation under Section 4042 of ERISA, or (e) any other event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any ERISA Plan.

"Tribunal" means any government, any arbitration panel, any court or any governmental department, commission, board, bureau, agency or instrumentality of the United States of America or any state, province, commonwealth, nation, territory, possession, county, parish, town, township, village or municipality, whether now or hereafter constituted and/or existing.

"Type" means, with respect to any Loans, the characterization of such Loans as either Base Rate Loans or Eurodollar Loans.

Section 1.2. Exhibits and Schedules; Additional Definitions. All Exhibits and Schedules attached to this Agreement are a part hereof for all purposes. Reference is hereby made to the Security Schedule for the meaning of certain terms defined therein and used but not defined herein, which definitions are incorporated herein by reference.

Section 1.3. Amendment of Defined Instruments. Unless the context otherwise requires or unless otherwise provided herein the terms defined in this Agreement which refer to a particular agreement, instrument or document also refer to and include all renewals, extensions, modifications, amendments and restatements of such agreement, instrument or document, provided that nothing contained in this section shall be construed to authorize any such renewal, extension, modification, amendment or restatement.

Section 1.4. References and Titles. All references in this Agreement to Exhibits, Schedules, articles, sections, subsections and other subdivisions refer to the Exhibits, Schedules, articles, sections, subsections and other subdivisions of this Agreement unless expressly provided otherwise. Titles appearing at the beginning of any subdivisions are for convenience only and do not constitute any part of such subdivisions and shall be disregarded in construing the language contained in such subdivisions. The words "this Agreement", "this instrument", "herein", "hereof", "hereby", "hereunder" and words of similar import refer to this Agreement as a whole and not to any particular subdivision unless expressly so limited. The phrases "this section" and "this subsection" and similar phrases refer only to the sections or subsections hereof in which such phrases occur. The word "or" is not exclusive, and the word "including" (in its various forms) means "including without limitation". Pronouns in masculine, feminine and neuter genders shall be construed to include any other gender, and words in the singular form shall be construed to include the plural and vice versa, unless the context otherwise requires.

Section 1.5. Calculations and Determinations. All calculations under the Loan Documents of interest chargeable with respect to Eurodollar Loans and of fees shall be made on the basis of actual days elapsed (including the first day but excluding the last) and a year of 360 days. All other calculations of interest made under the Loan Documents shall be made on the basis of actual days elapsed (including the first day but excluding the last) and a year of 365 or 366 days, as appropriate. Each determination by a Bank Party of amounts to be paid under Sections 3.2 through 3.8 or any other matters which are to be determined hereunder by a Bank Party (such as any Eurodollar Rate, LIBOR Rate, Business Day, Interest Period, or Reserve Percentage) shall, in the absence of manifest error, be conclusive and binding. Unless otherwise expressly provided herein or unless Majority Lenders

otherwise consent all financial statements and reports furnished to any Bank Party hereunder shall be prepared and all financial computations and determinations pursuant hereto shall be made in accordance with GAAP.

ARTICLE II - The Loans and Letters of Credit

Section 2.1. Commitments to Lend; Notes. Subject to the terms and conditions hereof, each Lender agrees to make loans to Borrower (herein called such Lender's "Loans") upon Borrower's request from time to time during the Commitment Period, provided that (a) subject to Sections 3.3, 3.4 and 3.6, all Lenders are requested to make Loans of the same Type in accordance with their respective Percentage Shares and as part of the same Borrowing, (b) after giving effect to such Loans, the Facility Usage does not exceed the Borrowing Base in effect as of the date on which the requested Loans are to be made and (c) after giving effect to such Loans, the outstanding principal amount of each Lender's Loans, plus such Lender's Percentage Share of LC Obligations does not exceed such Lender's Percentage Share of the Borrowing Base in effect as of the date on which the requested Loans are to be made. The aggregate amount of all Loans in any Borrowing must be greater than or equal to $2,500,000 or must equal the remaining availability under the Borrowing Base. Borrower may have no more than five Borrowings of Eurodollar Loans outstanding at any time. The obligation of Borrower to repay to each Lender the aggregate amount of all Loans made by such Lender, together with interest accruing in connection therewith, shall be evidenced by a single promissory note (herein called such Lender's "Note") made by Borrower payable to the order of such Lender in the form of Exhibit A with appropriate insertions. The amount of principal owing on any Lender's Note at any given time shall be the aggregate amount of all Loans theretofore made by such Lender minus all payments of principal theretofore received by such Lender on such Note. Interest on each Note shall accrue and be due and payable as provided herein and therein, with Eurodollar Loans bearing interest at the Eurodollar Rate plus the Eurodollar Margin and Base Rate Loans bearing interest at the Base Rate plus the Base Rate Margin (subject to the applicability of the Default Rate and limited by the provisions of Section 10.8). Subject to the terms and conditions hereof, Borrower may borrow, repay, and reborrow hereunder, provided that on the last day of the Commitment Period, unless sooner paid as provided herein, all Loans shall be repaid in full.

Section 2.2. Requests for New Loans. Borrower must give to Agent written notice (or telephonic notice promptly confirmed in writing) of any requested Borrowing of new Loans to be advanced by Lenders. Each such notice constitutes a "Borrowing Notice" hereunder and must:

(a) specify (i) the aggregate amount of any such Borrowing of new Base Rate Loans and the date on which such Base Rate Loans are to be advanced, or (ii) the aggregate amount of any such Borrowing of new Eurodollar Loans, the date on which such Eurodollar Loans are to be advanced (which shall be the first day of the Interest Period which is to apply thereto), and the length of the applicable Interest Period; and

(b) be received by Agent not later than 8:00 a.m., Los Angeles, California time, on (i) the day on which any such Base Rate Loans are to be made, or (ii) the third Business Day preceding the day on which any such Eurodollar Loans are to be made.

Each such written request or confirmation must be made in the form and substance of the "Borrowing Notice" attached hereto as Exhibit B, duly completed. Each such telephonic request shall be deemed a representation, warranty, acknowledgment and agreement by Borrower as to the matters which are required to be set out in such written confirmation. Upon receipt of any such Borrowing Notice, Agent shall give each Lender prompt notice of the terms thereof. If all conditions precedent to such new Loans have been met, each Lender will on the date requested promptly remit to Agent at Agent's office in Los Angeles, California the amount of such Lender's new Loan in immediately available funds, and upon receipt of such funds, unless to its actual knowledge any conditions precedent to such Loans have been neither met nor waived as provided herein, Agent shall promptly make such Loans available to Borrower. Unless Agent shall have received prompt notice from a Lender that such Lender will not make available to Agent such Lender's new Loan, Agent may in its discretion assume that such Lender has made such Loan available to Agent in accordance with this section, and Agent may if it chooses, in reliance upon such assumption, make such Loan available to Borrower. If and to the extent such Lender shall not so make its new Loan available to Agent, such Lender and Borrower severally agree to pay or repay to Agent within three days after demand the amount of such Loan together with interest thereon, for each day from the date such amount was made available to Borrower until the date such amount is paid or repaid to Agent, with interest at (i) the Federal Funds Rate, if such Lender is making such payment and (ii) the interest rate applicable at the time to the other new Loans made on such date, if Borrower is making such repayment. If neither such Lender nor Borrower pay or repay to Agent such amount within such three-day period, Agent shall in addition to such amount be entitled to recover from such Lender and from Borrower, on demand, interest thereon at the Default Rate, calculated from the date such amount was made available to Borrower. The failure of any Lender to make any new Loan to be made by it hereunder shall not relieve any other Lender of its obligation hereunder, if any, to make its new Loan, but no Lender shall be responsible for the failure of any other Lender to make any new Loan to be made by such other Lender.

Section 2.3. Interest Rates; Continuations and Conversions of Existing Loans.

(a) Interest Rates. Base Rate Loans (exclusive of any past due principal or interest) from time to time outstanding shall bear interest on each day outstanding at the sum of the Base Rate in effect on such day plus the Base Rate Margin in effect on such day, but in no event in excess of the Highest Lawful Rate. Each Eurodollar Loan (exclusive of any past due principal or interest) shall bear interest on each day during the related Interest Period at the related Eurodollar Rate in effect on such day plus the Eurodollar Margin in effect on such day, but in no event in excess of the Highest Lawful Rate. Such interest shall be payable on the dates specified in the Note. All past due principal of and past due interest on the Loan shall bear interest on each day outstanding at the Default Rate in effect on such day, and such interest shall be due and payable daily as it accrues.

(b) Continuations and Conversions. Borrower may make the following elections with respect to Loans already outstanding: to convert Base Rate Loans to Eurodollar Loans, to convert Eurodollar Loans to Base Rate Loans on the last day of the Interest Period applicable thereto, or to continue Eurodollar Loans beyond the expiration of such Interest Period by designating a new Interest Period to take effect at the time of such expiration. In making such elections, Borrower may combine existing Loans made pursuant to separate Borrowings into one new Borrowing or divide existing Loans made pursuant to one Borrowing into separate new Borrowings, provided that Borrower may have no more than five Borrowings of Eurodollar Loans outstanding at any time. To make any such election, Borrower must give to Agent written notice (or telephonic notice promptly confirmed in writing) of any

such conversion or continuation of existing Loans, with a separate notice given for each new Borrowing. Each such notice constitutes a "Continuation/Conversion Notice" hereunder and must:

(i) specify the existing Loans which are to be continued or converted;

(ii) specify (A) the aggregate amount of any Borrowing of Base Rate Loans into which such existing Loans are to be continued or converted and the date on which such continuation or conversion is to occur, or (B) the aggregate amount of any Borrowing of Eurodollar Loans into which such existing Loans are to be continued or converted, the date on which such continuation or conversion is to occur (which shall be the first day of the Interest Period which is to apply to such Eurodollar Loans), and the length of the applicable Interest Period; and

(iii) be received by Agent not later than 8:00 a.m., Los Angeles, California time, on (A) the day on which any such continuation or conversion to Base Rate Loans is to occur, or (B) the third Business Day preceding the day on which any such continuation or conversion to Eurodollar Loans is to occur.

Each such written request or confirmation must be made in the form and substance of the "Continuation/Conversion Notice" attached hereto as Exhibit C, duly completed. Each such telephonic request shall be deemed a representation, warranty, acknowledgment and agreement by Borrower as to the matters which are required to be set out in such written confirmation. Upon receipt of any such Continuation/Conversion Notice, Agent shall give each Lender prompt notice of the terms thereof. Each Continuation/Conversion Notice shall be irrevocable and binding on Borrower. During the continuance of any Default, Borrower may not make any election to convert existing Loans into Eurodollar Loans or continue existing Loans as Eurodollar Loans. If (due to the existence of a Default or for any other reason) Borrower fails to timely and properly give any notice of continuation or conversion with respect to a Borrowing of existing Eurodollar Loans at least three days prior to the end of the Interest Period applicable thereto, such Eurodollar Loans shall automatically be converted into Base Rate Loans at the end of such Interest Period. No new funds shall be repaid by Borrower or advanced by any Lender in connection with any continuation or conversion of existing Loans pursuant to this section, and no such continuation or conversion shall be deemed to be a new advance of funds for any purpose; such continuations and conversions merely constitute a change in the interest rate applicable to already outstanding Loans.

Section 2.4. Use of Proceeds. Borrower shall use all Loans: (i) to repay existing indebtedness of Hugoton Energy Corporation contemporaneously with the Hugoton Merger up to the amount of $105,000,000.00 plus accrued and unpaid interest, (ii) to repay existing indebtedness of DLB Oil & Gas, Inc. contemporaneously with the DLB Merger up to the amount of $85,000,000.00, (iii) to pay the purchase price for other acquisitions approved by Majority Lenders, (iv) to finance developmental drilling, (v) to finance capital expenditures, (vi) to refinance Matured LC Obligations, (vii) provide working capital for its operations and (viii) for other general business purposes, provided, that until both Mergers have been consummated, no Loans may be requested for the purposes under clauses (iii) through (viii) which cause the Applicable Initial Borrowing Base, minus the Facility Usage, to be less than the amounts to be available for the purposes under clauses (i) and (ii), as applicable. Borrower shall not use any Loans for the purpose of financing an acquisition of a Person which is opposed by the Board of Directors of the Person being acquired. Borrower shall use all Letters of Credit to assure the payment or performance of obligations or commitments arising the ordinary course of business and for

other general business purposes, but it shall not use Letters of Credit directly or indirectly to secure the payment of Indebtedness. In no event shall the funds from any Loan or any Letter of Credit be used directly or indirectly by any Person for personal, family, household or agricultural purposes or for the purpose, whether immediate, incidental or ultimate, of purchasing, acquiring or carrying any "margin stock" or any "margin securities" (as such terms are defined respectively in Regulation U and Regulation G promulgated by the Board of Governors of the Federal Reserve System) or to extend credit to others directly or indirectly for the purpose of purchasing or carrying any such margin stock or margin securities. Borrower represents and warrants that Borrower is not engaged principally, or as one of Borrower's important activities, in the business of extending credit to others for the purpose of purchasing or carrying such margin stock or margin securities.

Section 2.5. Fees.

(a) Commitment Fees. In consideration of each Lender's commitment to make Loans, Borrower will pay to Agent for the account of each Lender a commitment fee determined on a daily basis by applying the Commitment Fee Rate to such Lender's Percentage Share of the unused portion of the Borrowing Base on each day during the Commitment Period, determined for each such day by deducting from the amount of the Borrowing Base at the end of such day the Facility Usage. This commitment fee shall be due and payable in arrears on the last day of each March, June, September and December and at the end of the Commitment Period.

(c) Agent's Fees. In addition to all other amounts due to Agent under the Loan Documents, Borrower will pay fees to Agent as described in a letter agreement of even date herewith between Agent and Borrower.

Section 2.6. Optional Prepayments. Borrower may, upon five Business Days' notice to each Lender, from time to time and without premium or penalty prepay the Notes, in whole or in part, so long as the aggregate amounts of all partial prepayments of principal on the Notes equals $1,000,000 or any higher integral multiple of $1,000,000, so long as Borrower does not prepay any Eurodollar Loan. Each prepayment of principal under this section shall be accompanied by all interest then accrued and unpaid on the principal so prepaid. Any principal or interest prepaid pursuant to this section shall be in addition to, and not in lieu of, all payments otherwise required to be paid under the Loan Documents at the time of such prepayment

Section 2.7. Mandatory Prepayments.

(a) If at any time the Facility Usage is in excess of the Borrowing Base (such excess being herein called a "Borrowing Base Deficiency"), Borrower shall, after Agent gives notice of such fact to Borrower (a "Deficiency Notice"):

(i) within thirty (30) days after the Deficiency Notice give notice to Agent electing to prepay the principal of the Loans in a single payment, in which event Borrower shall prepay the principal of the Loans in an aggregate amount at least equal to such Borrowing Base Deficiency (or, if the Loans have been paid in full, pay to LC Issuer LC Collateral as required under Section 2.16(a)) on or before the date which is sixty (60) days after the Deficiency Notice, or

(ii) within 30 days after the Deficiency Notice give notice to Agent electing to prepay the principal of the Loans in installments, in which event Borrower shall prepay the principal of the Loans in six consecutive monthly installments, in an aggregate amount at least equal to such Borrowing Base Deficiency (or, if the Loans have been paid in full, pay to LC Issuer LC Collateral as required under Section 2.16(a)), with the first such installment due 30 days after the Deficiency Notice, the next five such installments due on the same day of each consecutive month, each such installment being in the amount of one-sixth of such Borrowing Base Deficiency, or

(iii) within 30 days after the Deficiency Notice, certify to Agent that Borrower has marketable title, free of any Liens, to oil and gas properties not included in such existing Borrowing Base, which properties were not acquired with Indebtedness, in an amount which eliminates such Borrowing Base Deficiency, and provide to each Lender the same information regarding such property as would be required for an evaluation by Required Lenders under Section 2.9. If Required Lenders determine that such properties will not serve to eliminate such Borrowing Base Deficiency, then, within five Business Days after receiving notice of such determination, Borrower will elect to make, and thereafter make, the prepayments specified in either of the preceding subsections (i) or (ii) of this subsection (a).

(b) Each prepayment of principal under this section shall be accompanied by all interest then accrued and unpaid on the principal so prepaid. Any principal or interest prepaid pursuant to this section shall be in addition to, and not in lieu of, all payments otherwise required to be paid under the Loan Documents at the time of such prepayment.

(c) During the pendency of a Borrowing Base Deficiency, or at any time after the occurrence and during the continuance of an Event of Default, all net proceeds of any securities issued by any Restricted Person or of any asset sale shall be applied to prepay the obligations.

Section 2.8. Initial Borrowing Base. During the period from the date hereof to the first Determination Date the Borrowing Base shall be the Applicable Initial Borrowing Base.

Section 2.9. Subsequent Determinations of Borrowing Base.

(a) By March 15 and September 15 of each year, Borrower shall furnish to each Lender all information, reports and data which Agent has then requested concerning Restricted Persons' businesses and properties (including their oil and gas properties and interests and the reserves and production relating thereto), together with the Engineering Reports described in Section 6.2(f) and (g). Borrower or Required Lenders shall each have the right to request additional redeterminations of the Borrowing Base by notice to the other, whereupon to the extent requested by any Lender, Borrower shall promptly, and in any event within forty-five (45) days after such notice, furnish to each Lender the same information required by the preceding sentence together with the Engineering Report described in Section 6.2(g). Within forty-five (45) days after receiving such information, reports and data, or as promptly thereafter as practicable, Required Lenders shall agree upon an amount for the Borrowing Base and Agent shall by notice to Borrower designate such amount as the new Borrowing Base available to Borrower hereunder, which designation shall take effect immediately on the date such notice is sent (herein called a "Determination Date") and shall remain in effect until but not including the next date as of which the Borrowing Base is redetermined. If Borrower does not furnish all such

information, reports and data by the date specified above in this section, Agent may nonetheless designate the Borrowing Base at any amount which Required Lenders determine and may redesignate the Borrowing Base from time to time thereafter until each Lender receives all such information, reports and data, whereupon Required Lenders shall designate a new Borrowing Base as described above. Required Lenders shall determine the amount of the Borrowing Base based upon (i) the loan value which they in their discretion assign to the various oil and gas properties of Restricted Persons at the time in question and (ii) upon such other factors (including without limitation the assets, liabilities, cash flow, hedged and unhedged exposure to price, foreign exchange rate, and interest rate changes, business, properties, prospects, management and ownership of Borrower and its Affiliates) as they in their discretion deem significant. It is expressly understood that Lenders and Agent have no obligation to agree upon or designate the Borrowing Base at any particular amount, whether in relation to the aggregate face amounts of the Notes or otherwise, and that Lenders' commitments to advance funds hereunder is determined by reference to the Borrowing Base from time to time in effect, which Borrowing Base shall be used for calculating commitment fees under Section 2.5 and, to the extent permitted by Law and regulatory authorities, for the purposes of capital adequacy determination and reimbursements under Section 3.2. Any determination of the Borrowing Base at an amount in excess of the lesser of (i) $300,000,000 or (ii) 150% of the Applicable Initial Borrowing Base shall require the determination and agreement of all Lenders.

(b) Borrowing Base Fees. In consideration of each increase of the Borrowing Base over the highest Borrowing Base previously in effect (but specifically excluding any increase to an amount less than or equal to $220,000,000, such increase being governed by the fees specified in the letter agreement of even date herewith between Agent and Borrower), Borrower will pay to Agent for the account of each Lender a fee determined by applying the applicable Borrowing Base Fee Rate to such Lender's portion of such Borrowing Base increase. This fee shall be due and payable no later than 15 days after the date of the Determination Date.

Section 2.10. Borrower's Reduction of the Borrowing Base. Borrower may, during the fifteen-day period beginning on each Determination Date (each such period being called in this section an "Option Period"), reduce the Borrowing Base from the amount designated by Agent to any lesser amount. To exercise such option Borrower must within an Option Period send notice to Agent of the amount of the Borrowing Base chosen by Borrower. If Borrower does not affirmatively exercise this option during an Option Period, the Borrowing Base shall be the amount designated by Agent. Any choice by Borrower of a Borrowing Base shall be effective as of the first day of the Option Period during which such choice was made and shall continue in effect until the next date as of which the Borrowing Base is redetermined.

Section 2.11. Letters of Credit. Subject to the terms and conditions hereof, Borrower may during the Commitment Period request LC Issuer to issue one or more Letters of Credit, provided that, after taking such Letter of Credit into account:

(a) the Facility Usage does not exceed the Borrowing Base at such time; and

(b) the aggregate amount of LC Obligations at such time does not exceed $15,000,000; and

(c) the expiration date of such Letter of Credit is prior to the end of the Commitment Period;

(d) such Letter of Credit is to be used for general corporate purposes of Borrower;

(e) such Letter of Credit is not directly or indirectly used to assure payment of or otherwise support any Indebtedness of any Person;

(f) the issuance of such Letter of Credit will be in compliance with all applicable governmental restrictions, policies, and guidelines and will not subject LC Issuer to any cost which is not reimbursable under Article III;

(g) the form and terms of such Letter of Credit are acceptable to LC Issuer in its sole discretion; and

(h) all other conditions in this Agreement to the issuance of such Letter of Credit have been satisfied.

LC Issuer will honor any such request if the foregoing conditions (a) through (h) (in the following Section 2.12 called the "LC Conditions") have been met as of the date of issuance of such Letter of Credit. LC Issuer may choose to honor any such request for any other Letter of Credit but has no obligation to do so and may refuse to issue any other requested Letter of Credit for any reason which LC Issuer in its sole discretion deems relevant.

Section 2.12. Requesting Letters of Credit. Borrower must make written application for any Letter of Credit at least five Business Days before the date on which Borrower desires for LC Issuer to issue such Letter of Credit. By making any such written application Borrower shall be deemed to have represented and warranted that the LC Conditions described in Section 2.11 will be met as of the date of issuance of such Letter of Credit. Each such written application for a Letter of Credit must be made in writing in the form and substance of Exhibit E, the terms and provisions of which are hereby incorporated herein by reference (or in such other form as may mutually be agreed upon by LC Issuer and Borrower). Two Business Days after the LC Conditions for a Letter of Credit have been met as described in Section 2.11 (or if LC Issuer otherwise desires to issue such Letter of Credit), LC Issuer will issue such Letter of Credit at LC Issuer's office in Los Angeles, California. If any provisions of any LC Application conflict with any provisions of this Agreement, the provisions of this Agreement shall govern and control.

Section 2.13. Reimbursement and Participations.

(a) Reimbursement by Borrower. Each Matured LC Obligation shall constitute a loan by LC Issuer to Borrower. Borrower promises to pay to LC Issuer, or to LC Issuer's order, on demand, the full amount of each Matured LC Obligation, together with interest thereon at the Base Rate plus the Base Rate Margin from the date such matured LC obligation accrues until the third Business Day after demand, and thereafter at the Default Rate until paid, but in no event in excess of the Highest Lawful Rate.

(b) Letter of Credit Advances. If the beneficiary of any Letter of Credit makes a draft or other demand for payment thereunder then Borrower may, during the interval between the making thereof and the honoring thereof by LC Issuer, request Lenders to make Loans to Borrower in the amount of such draft or demand, which Loans shall be made concurrently with LC Issuer's payment of such draft or demand and shall be immediately used by LC Issuer to repay the amount of the resulting Matured LC Obligation. Such a request by Borrower shall be made in compliance with all of the provisions hereof, provided that for the purposes of the first sentence of Section 2.1 the amount of such Loans shall be considered but the amount of the Matured LC Obligation to be concurrently paid by such Loans shall not be considered.

(c) Participation by Lenders. LC Issuer irrevocably agrees to grant and hereby grants to each Lender, and -- to induce LC Issuer to issue Letters of Credit hereunder -- each Lender irrevocably agrees to accept and purchase and hereby accepts and purchases from LC Issuer, on the terms and conditions hereinafter stated and for such Lender's own account and risk an undivided interest equal to such Lender's Percentage Share of LC Issuer's obligations and rights under each Letter of Credit issued hereunder and the amount of each Matured LC Obligation paid by LC Issuer thereunder. Each Lender unconditionally and irrevocably agrees with LC Issuer that, if a Matured LC Obligation is paid under any Letter of Credit for which LC Issuer is not reimbursed in full by Borrower in accordance with the terms of this Agreement and the related LC Application (including any reimbursement by means of concurrent Loans or by the application of LC Collateral), such Lender shall (in all circumstances and without set-off or counterclaim) pay to LC Issuer on demand, in immediately available funds at LC Issuer's address for notices hereunder, such Lender's Percentage Share of such Matured LC Obligation (or any portion thereof which has not been reimbursed by Borrower). Each Lender's obligation to pay LC Issuer pursuant to the terms of this subsection is irrevocable and unconditional. If any amount required to be paid by any Lender to LC Issuer pursuant to this subsection is not paid by such Lender to LC Issuer within three Business Days after the date such payment is due, LC Issuer shall in addition to such amount be entitled to recover from such Lender, on demand, interest thereon calculated from such due date at the Default Rate.

(d) Distributions to Participants. Whenever LC Issuer has in accordance with this section received from any Lender payment of such Lender's Percentage Share of any Matured LC Obligation, if LC Issuer thereafter receives any payment of such Matured LC Obligation or any payment of interest thereon (whether directly from Borrower or by application of LC Collateral or otherwise, and excluding only interest for any period prior to LC Issuer's demand that such Lender make such payment of its Percentage Share), LC Issuer will distribute to such Lender its Percentage Share of the amounts so received by LC Issuer; provided, however, that if any such payment received by LC Issuer must thereafter be returned by LC Issuer, such Lender shall return to LC Issuer the portion thereof which LC Issuer has previously distributed to it.

(e) Calculations. A written advice setting forth in reasonable detail the amounts owing under this section, submitted by LC Issuer to Borrower or any Lender from time to time, shall be conclusive, absent manifest error, as to the amounts thereof.

Section 2.14. Letter of Credit Fees. In consideration of LC Issuer's issuance of any Letter of Credit, Borrower agrees to pay (a) to Agent, for the account of all Lenders, a letter of credit fee determined on a daily basis by applying the Letter of Credit Fee Rate to such Lender's Percentage Share of the face amount of the Letter of Credit (but in no event less than $500 per annum), and (b) to

such LC Issuer for its own account, a letter of credit fronting fee at a rate specified in a separate letter agreement between Borrower and such LC Issuer (but in no event less than $250 per annum). The letter of credit fee and the letter of credit fronting fee with respect to each Letter of Credit shall be due and payable in arrears on the last day of each March, June, September and December for the period that such Letter of Credit is outstanding.

Section 2.15. No Duty to Inquire.

(a) Drafts and Demands. LC Issuer is authorized and instructed to accept and pay drafts and demands for payment under any Letter of Credit without requiring, and without responsibility for, any determination as to the existence of any event giving rise to said draft, either at the time of acceptance or payment or thereafter. LC Issuer is under no duty to determine the proper identity of anyone presenting such a draft or making such a demand (whether by tested telex or otherwise) as the officer, representative or agent of any beneficiary under any Letter of Credit, and payment by LC Issuer to any such beneficiary when requested by any such purported officer, representative or agent is hereby authorized and approved. Borrower agrees to hold LC Issuer and each other Bank Party harmless and indemnified against any liability or claim in connection with or arising out of the subject matter of this section, WHICH INDEMNITY SHALL APPLY WHETHER OR NOT ANY SUCH LIABILITY OR CLAIM IS IN ANY WAY OR TO ANY EXTENT CAUSED, IN WHOLE OR IN PART, BY ANY NEGLIGENT ACT OR OMISSION OF ANY KIND BY ANY BANK PARTY, provided only that no Bank Party shall be entitled to indemnification for that portion, if any, of any liability or claim which is proximately caused by its own individual gross negligence or willful misconduct, as determined in a final judgment.

(b) Extension of Maturity. If the maturity of any Letter of Credit is extended by its terms or by Law or governmental action, if any extension of the maturity or time for presentation of drafts or any other modification of the terms of any Letter of Credit is made at the request of any Restricted Person, or if the amount of any Letter of Credit is increased at the request of any Restricted Person, this Agreement shall be binding upon all Restricted Persons with respect to such Letter of Credit as so extended, increased or otherwise modified, with respect to drafts and property covered thereby, and with respect to any action taken by LC Issuer, LC Issuer's correspondents, or any Bank Party in accordance with such extension, increase or other modification.

(c) Transferees of Letters of Credit. If any Letter of Credit provides that it is transferable, LC Issuer shall have no duty to determine the proper identity of anyone appearing as transferee of such Letter of Credit, nor shall LC Issuer be charged with responsibility of any nature or character for the validity or correctness of any transfer or successive transfers, and payment by LC Issuer to any purported transferee or transferees as determined by LC Issuer is hereby authorized and approved, and Borrower further agrees to hold LC Issuer and each other Bank Party harmless and indemnified against any liability or claim in connection with or arising out of the foregoing, WHICH INDEMNITY SHALL APPLY WHETHER OR NOT ANY SUCH LIABILITY OR CLAIM IS IN ANY WAY OR TO ANY EXTENT CAUSED, IN WHOLE OR IN PART, BY ANY NEGLIGENT ACT OR OMISSION OF ANY KIND BY ANY BANK PARTY, provided only that no Bank Party shall be entitled to indemnification for that portion, if any, of any liability or claim which is proximately caused by its own individual gross negligence or willful misconduct, as determined in a final judgment.

Section 2.16. LC Collateral.

(a) LC Obligations in Excess of Borrowing Base. If, after the making of all mandatory prepayments required under Section 2.7, the principal balance of the Loans is zero, but outstanding LC Obligations will exceed the Borrowing Base, then in addition to such prepayment Borrower will immediately pay to LC Issuer an amount equal to such excess. LC Issuer will hold such amount as security for the remaining LC Obligations (all such amounts held as security for LC Obligations being herein collectively called "LC Collateral") until such LC Obligations become Matured LC Obligations, at which time such LC Collateral may be applied to such Matured LC Obligations. Neither this subsection nor the following subsection shall, however, limit or impair any rights which LC Issuer may have under any other document or agreement relating to any Letter of Credit or LC Obligation, including any LC Application, or any rights which any Bank Party may have to otherwise apply any payments by Borrower and any LC Collateral under Section 3.1.

(b) Acceleration of LC Obligations. If the Obligations or any part thereof become immediately due and payable pursuant to Section 8.1 then, unless Majority Lenders otherwise specifically elect to the contrary (which election may thereafter by retracted by Majority Lenders at any time), all LC Obligations shall become immediately due and payable without regard to whether or not actual drawings or payments on the Letters of Credit have occurred, and Borrower shall be obligated to pay to LC Issuer immediately an amount equal to the aggregate LC Obligations which are then outstanding. All amounts so paid shall first be applied to Matured LC Obligations and then held by LC Issuer as LC Collateral until such LC Obligations become Matured LC Obligations, at which time such LC Collateral shall be applied to such Matured LC Obligations.

(c) Investment of LC Collateral. Pending application thereof, all LC Collateral shall be invested by LC Issuer in such investments as LC Issuer may choose in its sole discretion. All interest on such investments shall be reinvested or applied to Matured LC Obligations. When all Obligations have been satisfied in full, including all LC Obligations, all Letters of Credit have expired or been terminated, and all of Borrower's reimbursement obligations in connection therewith have been satisfied in full, LC Issuer shall release any remaining LC Collateral. Borrower hereby assigns and grants to LC Issuer a continuing security interest in all LC Collateral paid by it to LC Issuer, all investments purchased with such LC Collateral, and all proceeds thereof to secure its Matured LC Obligations and its Obligations under this Agreement, the Notes, and the other Loan Documents. Borrower further agrees that LC Issuer shall have all of the rights and remedies of a secured party under the Uniform Commercial Code as adopted in the State of Texas with respect to such security interest and that an Event of Default under this Agreement shall constitute a default for purposes of such security interest.

(d) Payment of LC Collateral. When Borrower is required to provide LC Collateral for any reason and fails to do so on the day when required, LC Issuer may without notice to Borrower or any other Restricted Person provide such LC Collateral (whether by application of proceeds of other Collateral, by transfers from other accounts maintained with LC Issuer, or otherwise) using any available funds of Borrower or any other Person also liable to make such payments. Any such amounts which are required to be provided as LC Collateral and which are not provided on the date required shall, for purposes of each Security Document, be considered past due Obligations owing hereunder, and LC Issuer is hereby authorized to exercise its respective rights under each Security Document to obtain such amounts.

ARTICLE III - Payments to Lenders

Section 3.1. General Procedures. Borrower will make each payment which it owes under the Loan Documents to Agent for the account of the Bank Party to whom such payment is owed. Each such payment must be received by Agent not later than 9:00 a.m., Los Angeles, California time, on the date such payment becomes due and payable, in lawful money of the United States of America, without set-off, deduction or counterclaim, and in immediately available funds. Any payment received by Agent after such time will be deemed to have been made on the next following Business Day. Should any such payment become due and payable on a day other than a Business Day, the maturity of such payment shall be extended to the next succeeding Business Day, and, in the case of a payment of principal or past due interest, interest shall accrue and be payable thereon for the period of such extension as provided in the Loan Document under which such payment is due. Each payment under a Loan Document shall be due and payable at the place provided therein and, if no specific place of payment is provided, shall be due and payable at the place of payment of Agent's Note. When Agent collects or receives money on account of the Obligations, Agent shall distribute all money so collected or received, and each Bank Party shall apply all such money so distributed, as follows:

(a) first, for the payment of all Obligations which are then due (and if such money is insufficient to pay all such Obligations, first to any reimbursements due Agent under Section 6.9 or 10.4 and then to the partial payment of all other Obligations then due in proportion to the amounts thereof, or as Bank Parties shall otherwise agree);

(b) then for the prepayment of amounts owing under the Loan Documents (other than principal on the Notes) if so specified by Borrower;

(c) then for the prepayment of principal on the Notes, together with accrued and unpaid interest on the principal so prepaid; and

(d) last, for the payment or prepayment of any other Obligations.

All payments applied to principal or interest on any Note shall be applied first to any interest then due and payable, then to principal then due and payable, and last to any prepayment of principal and interest in compliance with Section 2.6. All distributions of amounts described in any of subsections (b), (c) or (d) above shall be made by Agent pro rata to each Bank Party then owed Obligations described in such subsection in proportion to all amounts owed to all Bank Parties which are described in such subsection; provided that if any Lender then owes payments to LC Issuer for the purchase of a participation under Section 2.13(c) hereof, any amounts otherwise distributable under this section to such Lender shall be deemed to belong to LC Issuer, to the extent of such unpaid payments, and Agent shall apply such amounts to make such unpaid payments rather than distribute such amounts to such Lender.

Section 3.2. Increased Cost and Reduced Return.

(a) If, after the date hereof, the adoption of any applicable law, rule, or regulation, or any change in any applicable law, rule, or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank, or comparable agency

charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such governmental authority, central bank, or comparable agency:

(i) shall subject such Lender (or its Applicable Lending Office) to any tax, duty, or other charge with respect to any Eurodollar Loans, its Notes, or its obligation to make Eurodollar Loans, or change the basis of taxation of any amounts payable to such Lender (or its Applicable Lending Office) under this Agreement or its Notes in respect of any Eurodollar Loans (other than taxes imposed on the overall net income of such Lender by the jurisdiction in which such Lender has its principal office or such Applicable Lending Office);

(ii) shall impose, modify, or deem applicable any reserve, special deposit, assessment, or similar requirement (other than the Reserve Requirement utilized in the determination of the Eurodollar Rate) relating to any extensions of credit or other assets of, or any deposits with or other liabilities or commitments of, such Lender (or its Applicable Lending Office), including the Commitment of such Lender hereunder; or

(iii) shall impose on such Lender (or its Applicable Lending Office) or the London interbank market any other condition affecting this Agreement or its Notes or any of such extensions of credit or liabilities or commitments;

and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making, Converting into, continuing, or maintaining any Eurodollar Loans or to reduce any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or its Notes with respect to any Eurodollar Loans, then Borrower shall pay to such Lender on demand such amount or amounts as will compensate such Lender for such increased cost or reduction. If any Lender requests compensation by Borrower under this Section 3.2(a), Borrower may, by notice to such Lender (with a copy to Agent), suspend the obligation of such Lender to make or continue Loans of the Type with respect to which such compensation is requested, or to Convert Loans of any other Type into Loans of such Type, until the event or condition giving rise to such request ceases to be in effect (in which case the provisions of Section 3.5 shall be applicable); provided that such suspension shall not affect the right of such Lender to receive the compensation so requested.

(b) If, after the date hereof, any Lender shall have determined that the adoption of any applicable law, rule, or regulation regarding capital adequacy or any change therein or in the interpretation or administration thereof by any governmental authority, central bank, or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such governmental authority, central bank, or comparable agency, has or would have the effect of reducing the rate of return on the capital of such Lender or any corporation controlling such Lender as a consequence of such Lender's obligations hereunder to a level below that which such Lender or such corporation could have achieved but for such adoption, change, request, or directive (taking into consideration its policies with respect to capital adequacy), then from time to time upon demand Borrower shall pay to such Lender such additional amount or

amounts as will compensate such Lender for such reduction but only to the extent that such Lender has not been compensated therefor by an increase in the Eurodollar Rate.

(c) Each Lender shall promptly notify Borrower and Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to it. Any Lender claiming compensation under this Section shall furnish to Borrower and Agent a statement setting forth the additional amount or amounts to be paid to it hereunder which shall be conclusive in the absence of manifest error. In determining such amount, such Lender shall act in good faith and may use any reasonable averaging and attribution methods.

Section 3.3. Limitation on Types of Loans. If on or prior to the first day of any Interest Period for any Eurodollar Loan:

(a) Agent determines (which determination shall be conclusive) that by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period; or

(b) the Majority Lenders determine (which determination shall be conclusive) and notify Agent that the Eurodollar Rate will not adequately and fairly reflect the cost to Lenders of funding Eurodollar Loans for such Interest Period;

then Agent shall give Borrower prompt notice thereof specifying the relevant Type of Loans and the relevant amounts or periods, and so long as such condition remains in effect, Lenders shall be under no obligation to make additional Loans of such Type, continue Loans of such Type, or to Convert Loans of any other Type into Loans of such Type and Borrower shall, on the last day(s) of the then current Interest Period(s) for the outstanding Loans of the affected Type, either prepay such Loans or Convert such Loans into another Type of Loan in accordance with the terms of this Agreement.

Section 3.4. Illegality. Notwithstanding any other provision of this Agreement, in the event that it becomes unlawful for any Lender or its Applicable Lending Office to make, maintain, or fund Eurodollar Loans hereunder, then such Lender shall promptly notify Borrower thereof and such Lender's obligation to make or continue Eurodollar Loans and to Convert other Types of Loans into Eurodollar Loans shall be suspended until such time as such Lender may again make, maintain, and fund Eurodollar Loans (in which case the provisions of Section 3.5 shall be applicable).

Section 3.5. Treatment of Affected Loans. If the obligation of any Lender to make a particular Type of Eurodollar Loan or to continue, or to Convert Loans of any other Type into, Loans of a particular Type shall be suspended pursuant to Section 3.2 or 3.4 hereof (Loans of such Type being herein called "Affected Loans" and such Type being herein called the "Affected Type"), such Lender's Affected Loans shall be automatically Converted into Base Rate Loans on the last day(s) of the then current Interest Period(s) for Affected Loans (or, in the case of a Conversion required by Section 3.4 hereof, on such earlier date as such Lender may specify to Borrower with a copy to Agent) and, unless and until such Lender gives notice as provided below that the circumstances specified in Section 3.2 or 3.4 hereof that gave rise to such Conversion no longer exist:

(a) to the extent that such Lender's Affected Loans have been so Converted, all payments and prepayments of principal that would otherwise be applied to such Lender's Affected Loans shall be applied instead to its Base Rate Loans; and

(b) all Loans that would otherwise be made or continued by such Lender as Loans of the Affected Type shall be made or continued instead as Base Rate Loans, and all Loans of such Lender that would otherwise be Converted into Loans of the Affected Type shall be Converted instead into (or shall remain as) Base Rate Loans.

If such Lender gives notice to Borrower (with a copy to Agent) that the circumstances specified in Section 3.2 or 3.4 hereof that gave rise to the Conversion of such Lender's Affected Loans pursuant to this Section 3.5 no longer exist (which such Lender agrees to do promptly upon such circumstances ceasing to exist) at a time when Loans of the Affected Type made by other Lenders are outstanding, such Lender's Base Rate Loans shall be automatically Converted, on the first day(s) of the next succeeding Interest Period(s) for such outstanding Loans of the Affected Type, to the extent necessary so that, after giving effect thereto, all Loans held by Lenders holding Loans of the Affected Type and by such Lender are held pro rata (as to principal amounts, Types, and Interest Periods) in accordance with their Percentage Shares of the Commitment.

Section 3.6. Compensation. Upon the request of any Lender, Borrower shall pay to such Lender such amount or amounts as shall be sufficient (in the reasonable opinion of such Lender) to compensate it for any loss, cost, or expense (including loss of anticipated profits) incurred by it as a result of:

(a) any payment, prepayment, or Conversion of a Eurodollar Loan for any reason (including, without limitation, the acceleration of the Loans pursuant to Section 8.1) on a date other than the last day of the Interest Period for such Loan; or

(b) any failure by Borrower for any reason (including, without limitation, the failure of any condition precedent specified in Article IV to be satisfied) to borrow, Convert, continue, or prepay a Eurodollar Loan on the date for such borrowing, Conversion, continuation, or prepayment specified in the relevant notice of borrowing, prepayment, continuation, or Conversion under this Agreement.

Section 3.7. Taxes.

(a) Any and all payments by Borrower to or for the account of any Lender or Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender and Agent, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction under the laws of which such Lender (or its Applicable Lending Office) or Agent (as the case may be) is organized or any political subdivision thereof (all such non-excluded taxes, duties, levies, imposts, deductions, charges, withholdings, and liabilities being hereinafter referred to as "Taxes"). If Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable under this Agreement or any other Loan Document to any Lender or Agent, (i) the sum payable shall be increased as necessary so that after making

all required deductions (including deductions applicable to additional sums payable under this Section 3.7) such Lender or Agent receives an amount equal to the sum it would have received had no such deductions been made, (ii) Borrower shall make such deductions, and (iii) Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, Borrower agrees to pay any and all present or future stamp or documentary taxes and any other excise or property taxes or charges or similar levies which arise from any payment made under this Agreement or any other Loan Document or from the execution or delivery of, or otherwise with respect to, this Agreement or any other Loan Document (hereinafter referred to as "Other Taxes").

(c) Borrower agrees to indemnify each Lender and Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 3.7) paid by such Lender or Agent (as the case may be) and any liability (including penalties, interest, and expenses) arising therefrom or with respect thereto.

(d) Each Lender organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Lender listed on the signature pages hereof and on or prior to the date on which it becomes a Lender in the case of each other Lender, and from time to time thereafter if requested in writing by Borrower or Agent (but only so long as such Lender remains lawfully able to do so), shall provide Borrower and Agent with (i) Internal Revenue Service Form 1001 or 4224, as appropriate, or any successor form prescribed by the Internal Revenue Service, certifying that such Lender is entitled to benefits under an income tax treaty to which the United States is a party which reduces the rate of withholding tax on payments of interest or certifying that the income receivable pursuant to this Agreement is effectively connected with the conduct of a trade or business in the United States, (ii) Internal Revenue Service Form W-8 or W-9, as appropriate, or any successor form prescribed by the Internal Revenue Service, and (iii) any other form or certificate required by any taxing authority (including any certificate required by Sections 871(h) and 881(c) of the Internal Revenue Code), certifying that such Lender is entitled to an exemption from or a reduced rate of tax on payments pursuant to this Agreement or any of the other Loan Documents.

(e) For any period with respect to which a Lender has failed to provide Borrower and Agent with the appropriate form pursuant to Section 3.7(d) (unless such failure is due to a change in treaty, law, or regulation occurring subsequent to the date on which a form originally was required to be provided), such Lender shall not be entitled to indemnification under Section 3.7(a) or 3.7(b) with respect to Taxes imposed by the United States; provided, however, that should a Lender, which is otherwise exempt from or subject to a reduced rate of withholding tax, become subject to Taxes because of its failure to deliver a form required hereunder, Borrower shall take such steps as such Lender shall reasonably request to assist such Lender to recover such Taxes.

(f) If Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this Section 3.7, then such Lender will agree to use reasonable efforts to

change the jurisdiction of its Applicable Lending Office so as to eliminate or reduce any such additional payment which may thereafter accrue if such change, in the judgment of such Lender, is not otherwise disadvantageous to such Lender and in the event Lender is reimbursed for an amount paid by Borrower pursuant to this Section 3.7, it shall promptly return such amount to Borrower.

(g) Within thirty (30) days after the date of any payment of Taxes, Borrower shall furnish to Agent the original or a certified copy of a receipt evidencing such payment.

(h) Without prejudice to the survival of any other agreement of Borrower hereunder, the agreements and obligations of Borrower contained in this Section 3.7 shall survive the termination of the Commitment and the payment in full of the Notes.

Section 3.8. Compensation Procedure. Any Lender or LC Issuer notifying Borrower of the incurrence of additional costs under Sections 3.2 through 3.7 shall in such notice to Borrower and Agent set forth in reasonable detail the basis and amount of its request for compensation. Determinations and allocations by each Lender or LC Issuer for purposes of Sections 3.2 through 3.7 of the effect of any change in applicable laws, treaties, rules or regulations or in the interpretation or administration thereof, any losses or expenses incurred by reason of the liquidation or reemployment of deposits or other funds, any taxes, levies, costs and charges imposed, or the effect of capital maintained on its costs or rate of return of maintaining Loans or its obligation to make Loans, or on amounts receivable by it in respect of Loans, and of the amounts required to compensate such Lender under Sections 3.2 through 3.7, shall be conclusive and binding for all purposes, absent manifest error. Any request for compensation under this Section 3.8 shall be paid by Borrower within thirty (30) Business Days of the receipt by Borrower of the notice described in this Section 3.8.

Section 3.9. Change of Applicable Lending Office. Each Bank Party agrees that, upon the occurrence of any event giving rise to the operation of Sections 3.2 through 3.6 with respect to such Bank Party, it will, if requested by Borrower, use reasonable efforts (subject to overall policy considerations of such Bank Party) to designate another Lending Office, provided that such designation is made on such terms that such Bank Party and its Lending Office suffer no economic, legal or regulatory disadvantage, with the object of avoiding the consequence of the event giving rise to the operation of any such section. Nothing in this section shall affect or postpone any of the obligations of Borrower or the rights of any Bank Party provided in Sections 3.2 through 3.6.

ARTICLE IV - Conditions Precedent to Lending

Section 4.1. Documents to be Delivered. No Lender has any obligation to make its first Loan, and LC Issuer has no obligation to issue the first Letter of Credit, unless Agent shall have received all of the following, at Agent's office in Los Angeles, California, duly executed and delivered and in form, substance and date satisfactory to Agent:

(a) This Agreement and any other documents that Lenders are to execute in connection herewith.

(b) Each Note.

(c) The guaranties, stock pledge agreements and financing statements listed on the Security Schedule.

(d) The Agreement of Representations, Warranties and Covenant of Parent in the form attached hereto as Exhibit F.

(e) Certain certificates of each Borrower including:

(i) An "Omnibus Certificate" of the Secretary and of the Chairman of the Board or President of Borrower, which shall contain the names and signatures of the officers of Borrower authorized to execute Loan Documents and which shall certify to the truth, correctness and completeness of the following exhibits attached thereto: (1) a copy of resolutions duly adopted by the Board of Directors of Borrower and in full force and effect at the time this Agreement is entered into, authorizing the execution of this Agreement and the other Loan Documents delivered or to be delivered in connection herewith and the consummation of the transactions contemplated herein and therein, (2) a copy of the charter documents of Borrower and all amendments thereto, certified by the appropriate official of Borrower's state of organization, and (3) a copy of any bylaws of Borrower; and

(ii) A "Compliance Certificate" of the Chairman of the Board or President and of the chief financial officer of Borrower, of even date with such Loan or such Letter of Credit, in which such officers certify to the satisfaction of the conditions set out in subsections (a), (b), (c) and (d) of Section 4.4.

(f) A certificate (or certificates) of the due formation, valid existence and good standing of Borrower in its state of organization, issued by the appropriate authorities of such jurisdiction, and certificates of Borrower's good standing and due qualification to do business, issued by appropriate officials in any states in which Borrower owns property.

(g) Documents similar to those specified in subsections (e)(i) and (f) of this section with respect to each other Restricted Person and the execution by it of its guaranty and the other Loan Documents to which it is a party.

(h) Documents similar to those specified in subsections (e)(i) and (f) of this section with respect to Parent.

(i) A favorable opinion of Messrs. Self, Giddens and Lees counsel for Restricted Persons, substantially in the form set forth in Exhibit G-1.

(j) A favorable opinion of Andrews & Kurth L.L.P., counsel for Restricted Persons in the form of Exhibit G-2, and other evidence requested by Agent that (i) each Restricted Person is an "Unrestricted Subsidiary," as that term is used in the 1995 Indenture and the 1996 Indenture and no Restricted Person is required to be or become a Guarantor under the 1997 Indentures, (ii) no Restricted Person is otherwise subject to the covenants contained in the Indentures, including but not limited to any covenant requiring the granting of any guaranty or Lien to the holders of any notes subject to the Indentures or any covenant prohibiting any of the covenants

made herein by the Restricted Persons, and (iii) that the representations and warranties contained in Section 5.4 are true and correct insofar as they relate to the Indentures.

(k) The Initial Engineering Report and the Initial Financial Statements.

(l) Certificates or binders evidencing Restricted Persons' insurance in effect on the date hereof.

(m) An environmental report issued by a consultant acceptable to the Agent regarding their environmental assessment of a selected number of the properties part of the Mergers and their environmental review of the companies that are party to the Mergers, in scope and results acceptable to Agent.

(n) A certificate signed by the chief executive officer of Borrower in form and detail acceptable to Agent confirming the insurance that is in effect as of the date hereof and certifying that such insurance is customary for the businesses conducted by Restricted Persons and is in compliance with the requirements of this Agreement.

(o) Payment of all commitment, facility, agency and other fees required to be paid to any Bank Party pursuant to any Loan Documents or any commitment agreement heretofore entered into.

(p) A copy of each Acquisition Document, duly executed and delivered by each party thereto.

(q) Evidence that Borrower has obtained approvals or applicable waiting periods have expired as required pursuant to the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended.

Section 4.2. Closing of Mergers. (a) Prior to or contemporaneously with the first Loan hereunder, Borrower shall have consummated either the DLB Merger or the Hugoton Merger. Prior to the funding of any Loan to refinance indebtedness in connection with either of the Mergers, (i) such Merger shall have been consummated, in form and substance satisfactory to Agent, (ii) after giving effect to such Merger, all representations and warranties made by any Restricted Person in any Loan Document shall be true (including, but not limited to, the contemporaneous payment and release of any Liens and Indebtedness not permitted by Sections 7.1 or 7.2), and (iii) Agent shall have received all documents and instruments which Agent has then requested, including, but not limited to, supplements or restatements of the opinions and certificates set forth in Section 4.1. Each Restricted Person hereby acknowledges and agrees that each Restricted Person shall be deemed to have executed and delivered each Loan Document as set forth in Section 4.1 above, including without limitation each guaranty, immediately prior to or simultaneously with the making of the Loans hereunder.

(b) If the DLB Merger shall occur prior to the Hugoton Merger and the existing indebtedness of DLB exceeds the Borrowing Base, prior to or contemporaneously with the consummation of the DLB Merger, Borrower shall have received a cash equity contribution from Parent in the amount of such excess and shall have applied such contribution to such existing indebtedness of DLB.

Section 4.3. Designated Affiliate Contracts/Structure. Contemporaneously with the first Loan hereunder, Restricted Persons shall have satisfied the following additional conditions:

(a) Restricted Persons shall have entered into contracts, in form, scope, and substance satisfactory to Lenders with Chesapeake Operating Inc. regarding management services, leasehold operating services and other operating services and compensation for such services (the "Designated Affiliate Contracts"), and

(b) Each Restricted Person shall have adopted Restated Certificates of Incorporation in the form attached hereto as Exhibit I-1 or Exhibit I-2 and shall have delivered to Agent a certificate in form satisfactory to Agent that each Restricted Person is in compliance with the requirements of such Restated Certificates of Incorporation.

Section 4.4. Additional Conditions Precedent. No Lender has any obligation to make any Loan (including its first), and LC Issuer has no obligation to issue any Letter of Credit (including its first), unless the following conditions precedent have been satisfied:

(a) All representations and warranties made by Parent or any Restricted Person in any Loan Document shall be true on and as of the date of such Loan or the date of issuance of such Letter of Credit (except to the extent that the facts upon which such representations are based have been changed by the extension of credit hereunder) as if such representations and warranties had been made as of the date of such Loan or the date of issuance of such Letter of Credit.

(b) No Default shall exist at the date of such Loan or the date of issuance of such Letter of Credit.

(c) No Material Adverse Change shall have occurred to, and no event or circumstance shall have occurred that could cause a Material Adverse Change to, Borrower's Consolidated financial condition or businesses since the date of this Agreement.

(d) Parent and each Restricted Person shall have performed and complied with all agreements and conditions required in the Loan Documents to be performed or complied with by it on or prior to the date of such Loan or the date of issuance of such Letter of Credit.

(e) The making of such Loan or the issuance of such Letter of Credit shall not be prohibited by any Law and shall not subject any Lender or any LC Issuer to any penalty or other onerous condition under or pursuant to any such Law.

(f) Agent shall have received all documents and instruments which Agent has then requested, in addition to those described in Section 4.1 (including opinions of legal counsel for Restricted Persons and Agent; corporate documents and records; documents evidencing governmental authorizations, consents, approvals, licenses and exemptions; and certificates of public officials and of officers and representatives of Borrower and other Persons), as to (i) the accuracy and validity of or compliance with all representations, warranties and covenants made by any Restricted Person in this Agreement and the other Loan Documents, (ii) the satisfaction of all conditions contained herein or therein, and (iii) all other matters pertaining hereto and

thereto. All such additional documents and instruments shall be satisfactory to Agent in form, substance and date.

ARTICLE V - Representations and Warranties

To confirm each Bank Party's understanding concerning Restricted Persons and Restricted Persons' businesses, properties and obligations and to induce each Bank Party to enter into this Agreement and to extend credit hereunder, each Restricted Person represents and warrants to each Bank Party that:

Section 5.1. No Default. No Restricted Person is in default in the performance of any of the covenants and agreements contained in any Loan Document. No event has occurred and is continuing which constitutes a Default.

Section 5.2. Organization and Good Standing. Each Restricted Person is duly organized, validly existing and in good standing under the Laws of its jurisdiction of organization, having all powers required to carry on its business and enter into and carry out the transactions contemplated hereby. Each Restricted Person is duly qualified, in good standing, and authorized to do business in all other jurisdictions within the United States wherein the character of the properties owned or held by it or the nature of the business transacted by it makes such qualification necessary. Each Restricted Person has taken all actions and procedures customarily taken in order to enter, for the purpose of conducting business or owning property, each jurisdiction outside the United States wherein the character of the properties owned or held by it or the nature of the business transacted by it makes such actions and procedures desirable.

Section 5.3. Authorization. Each Restricted Person has duly taken all action necessary to authorize the execution and delivery by it of the Loan Documents to which it is a party and to authorize the consummation of the transactions contemplated thereby and the performance of its obligations thereunder. Borrower is duly authorized to borrow funds hereunder.

Section 5.4. No Conflicts or Consents. The execution and delivery by Parent and the various Restricted Persons of the Loan Documents to which each is a party, the performance by each of its obligations under such Loan Documents, and the consummation of the transactions contemplated by the various Loan Documents, do not and will not (i) conflict with any provision of (1) any Law, (2) the organizational documents of Parent or any Restricted Person, or (3) any agreement, judgment, license, order or permit applicable to or binding upon Parent or any Restricted Person, (ii) result in the acceleration of any Indebtedness owed by Parent or any or Restricted Person, (iii) result in or require the creation of any Lien upon any assets or properties of Parent or any Restricted Person, or (iv) result in or require the creation of any guaranty by any Restricted Person of any Indebtedness of any other Person except for the guaranties listed on the Security Schedule. Except as expressly contemplated in the Loan Documents no consent, approval, authorization or order of, and no notice to or filing with, any Tribunal or third party is required in connection with the execution, delivery or performance by Parent or any Restricted Person of any Loan Document or to consummate any transactions contemplated by the Loan Documents.

Section 5.5. Enforceable Obligations. This Agreement is, and the other Loan Documents when duly executed and delivered will be, legal, valid and binding obligations of each Restricted Person which is a party hereto or thereto, enforceable in accordance with their terms except as such enforcement may be limited by bankruptcy, insolvency or similar Laws of general application relating to the enforcement of creditors' rights.

Section 5.6. Initial Financial Statements. Borrower has heretofore delivered to each Bank Party true, correct and complete copies of the Initial Financial Statements. The Initial Financial Statements fairly present (i) Parent's Consolidated financial position at the dates thereof and the Consolidated results of Parent's operations and Parent's Consolidated cash flows for the respective periods thereof, (ii) Borrower's pro forma financial position at the date thereof after giving effect to the merger of AnSon Production Corporation with and into CMC, (iii) Borrower's pro forma financial condition as of the date thereof after giving effect to the Hugoton Merger, (iv) Borrower's Consolidated pro forma financial condition as of the date thereof after giving effect to the DLB Merger and (v) Borrower's Consolidated pro forma financial condition as of the date thereof after giving effect to both Mergers. Since the date of the annual Initial Financial Statements no Material Adverse Change has occurred from the financial condition reflected in the Initial Financial Statements, except as reflected in Parent's quarterly Initial Financial Statements or in the Disclosure Schedule. All Initial Financial Statements were prepared in accordance with GAAP.

Section 5.7. Other Obligations and Restrictions. No Restricted Person has any outstanding Liabilities of any kind (including contingent obligations, tax assessments, and unusual forward or long-term commitments) which are, in the aggregate, material to such Restricted Person or material with respect to Restricted Persons' Consolidated financial condition and not shown in the Initial pro forma Financial Statements of Borrower or disclosed in the Disclosure Schedule or a Disclosure Report. Except as shown in the Initial Financial Statements or disclosed in the Disclosure Schedule or a Disclosure Report, no Restricted Person is subject to or restricted by any franchise, contract, deed, charter restriction, or other instrument or restriction which could cause a Material Adverse Change.

Section 5.8. Full Disclosure. No certificate, statement or other information delivered herewith or heretofore by any Restricted Person to any Bank Party in connection with the negotiation of this Agreement or in connection with any transaction contemplated hereby (including, but not limited to, the final Proxy Statements for each of the Mergers) contains any untrue statement of a material fact or omits to state any material fact known to any Restricted Person (other than industry-wide risks normally associated with the types of businesses conducted by Restricted Persons) necessary to make the statements contained herein or therein not misleading as of the date made or deemed made. There is no fact known to any Restricted Person (other than industry-wide risks normally associated with the types of businesses conducted by Restricted Persons) that has not been disclosed to each Bank Party in writing which could cause a Material Adverse Change. There are no statements or conclusions in any Engineering Report which are based upon or include misleading information or fail to take into account material information regarding the matters reported therein, it being understood that each Engineering Report is necessarily based upon professional opinions, estimates and projections and that no Related Person warrants that such opinions, estimates and projections will ultimately prove to have been accurate. Parent and Borrower have heretofore delivered to each Bank Party true, correct and complete copies of the Initial Engineering Report.

Section 5.9. Litigation. Except as disclosed in the Initial Financial Statements or in the Disclosure Schedule: (i) there are no actions, suits or legal, equitable, arbitrative or administrative proceedings pending, or to the knowledge of any Restricted Person threatened, against any Restricted Person before any Tribunal which could cause a Material Adverse Change, and (ii) there are no outstanding judgments, injunctions, writs, rulings or orders by any such Tribunal against any Restricted Person or any Restricted Person's stockholders, partners, directors or officers which could cause a Material Adverse Change.

Section 5.10. Labor Disputes and Acts of God. Except as disclosed in the Disclosure Schedule or a Disclosure Report, neither the business nor the properties of Parent or any Restricted Person has been affected by any fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy or other casualty (whether or not covered by insurance), which could cause a Material Adverse Change.

Section 5.11. ERISA Plans and Liabilities. All currently existing ERISA Plans are listed in the Disclosure Schedule or a Disclosure Report. Except as disclosed in the Initial Financial Statements or in the Disclosure Schedule or a Disclosure Report, no Termination Event has occurred with respect to any ERISA Plan and all ERISA Affiliates are in compliance with ERISA in all material respects. No ERISA Affiliate is required to contribute to, or has any other absolute or contingent liability in respect of, any "multiemployer plan" as defined in Section 4001 of ERISA. Except as set forth in the Disclosure Schedule or a Disclosure Report: (i) no "accumulated funding deficiency" (as defined in Section 412(a) of the Internal Revenue Code of 1986, as amended) exists with respect to any ERISA Plan, whether or not waived by the Secretary of the Treasury or his delegate, and (ii) the current value of each ERISA Plan's benefits does not exceed the current value of such ERISA Plan's assets available for the payment of such benefits by more than $500,000.

Section 5.12. Environmental and Other Laws. Except as disclosed in the Disclosure Schedule or a Disclosure Report: (a) Restricted Persons are conducting their businesses in material compliance with all applicable Laws, including Environmental Laws, and have and are in compliance with all licenses and permits required under any such Laws; (b) none of the operations or properties of any Restricted Person is the subject of federal, state or local investigation evaluating whether any material remedial action is needed to respond to a release of any Hazardous Materials into the environment or to the improper storage or disposal (including storage or disposal at offsite locations) of any Hazardous Materials; (c) no Restricted Person (and to the best knowledge of Borrower, no other Person) has filed any notice under any Law indicating that any Restricted Person is responsible for the improper release into the environment, or the improper storage or disposal, of any material amount of any Hazardous Materials or that any Hazardous Materials have been improperly released, or are improperly stored or disposed of, upon any property of any Restricted Person; (d) no Restricted Person has transported or arranged for the transportation of any Hazardous Material to any location which is (i) listed on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, listed for possible inclusion on such National Priorities List by the Environmental Protection Agency in its Comprehensive Environmental Response, Compensation and Liability Information System List, or listed on any similar state list or (ii) the subject of federal, state or local enforcement actions or other investigations which may lead to claims against any Restricted Person for clean-up costs, remedial work, damages to natural resources or for personal injury claims (whether under Environmental Laws or otherwise); and (e) no Restricted Person otherwise has any

known material contingent liability under any Environmental Laws or in connection with the release into the environment, or the storage or disposal, of any Hazardous Materials.

Section 5.13. Names and Places of Business. No Restricted Person has, during the preceding five years, had, been known by, or used any other trade or fictitious name, except as disclosed in the Disclosure Schedule. Except as otherwise indicated in the Disclosure Schedule or a Disclosure Report, the chief executive office and principal place of business of each Restricted Person are (and for the preceding five years have been) located at the address of Borrower set out in Section 10.3. Except as indicated in the Disclosure Schedule or a Disclosure Report, no Restricted Person has any other office or place of business.

Section 5.14. Borrower's Subsidiaries. All of the outstanding stock of any class of CAC is owned by Parent. All of the outstanding stock of any class of CMC, Chesapeake Merger, Chesapeake Acquisition and Chesapeake Columbia Corp., Inc. is owned by CAC. All of the partnership interests of Mid-Continent Gas Pipeline Company and AnSon Gas Marketing are owned by CAC and CMC. Neither CAC nor CMC has any Subsidiary or own any stock in any other corporation or association except those listed in the Disclosure Schedule or a Disclosure Report. Neither Borrower nor any Restricted Person is a member of any general or limited partnership, joint venture or association of any type whatsoever. Except as otherwise revealed in a Disclosure Report, Borrower owns, directly or indirectly, the equity interest in each of its Subsidiaries which is indicated in the Disclosure Schedule.

Section 5.15. Title to Properties; Licenses. Each Restricted Person has good and defensible title to all of its material properties and assets, free and clear of all Liens other than Permitted Liens and of all impediments to the use of such properties and assets in such Restricted Person's business, except that no representation or warranty is made with respect to any oil, gas or mineral property or interest to which no proved oil or gas reserves are properly attributed. Other than Liens permitted under Section 7.02, each Restricted Person will respectively own in the aggregate, in all material respects, the net interests in production attributable to the wells and units evaluated in the Initial Reserve Reports. The ownership of such Properties shall not in the aggregate in any material respect obligate such Restricted Person to bear the costs and expenses relating to the maintenance, development and operations of such Properties in an amount materially in excess of the working interest of such Properties set forth in the Initial Engineering Reports. Each Restricted Person has paid all royalties payable under the oil and gas leases to which it is operator, except those contested in accordance with the terms of the applicable joint operating agreement or otherwise contested in good faith by appropriate proceedings. Upon delivery of each Engineering Report furnished to the Lenders pursuant to Sections 6.02(f) and (g), the statements made in the preceding sentences of this Section 5.15 shall be true with respect to such Engineering Reports. All information contained in the Initial Engineering Reports is true and correct in all material respects as of the date thereof and as of the date of the first Loan hereunder. Each Restricted Person possesses all licenses, permits, franchises, patents, copyrights, trademarks and trade names, and other intellectual property (or otherwise possesses the right to use such intellectual property without violation of the rights of any other Person) which are necessary to carry out its business as presently conducted and as presently proposed to be conducted hereafter, and no Restricted Person is in violation in any material respect of the terms under which it possesses such intellectual property or the right to use such intellectual property.

Section 5.16. Government Regulation. Neither Parent nor Borrower nor any other Restricted Person owing Obligations is subject to regulation under the Public Utility Holding Company Act of

1935, the Federal Power Act, the Investment Company Act of 1940 (as any of the preceding acts have been amended) or any other Law which regulates the incurring by such Person of Indebtedness, including Laws relating to common contract carriers or the sale of electricity, gas, steam, water or other public utility services.

Section 5.17. Insider. Neither Parent nor any Restricted Person, nor any Person having "control" (as that term is defined in 12 U.S.C. ss. 375b(9) or in regulations promulgated pursuant thereto) of any Restricted Person, is a "director" or an "executive officer" or "principal shareholder" (as those terms are defined in 12 U.S.C. ss. 375b(8) or (9) or in regulations promulgated pursuant thereto) of any Bank Party, of a bank holding company of which any Bank Party is a Subsidiary or of any Subsidiary of a bank holding company of which any Bank Party is a Subsidiary.

Section 5.18. Mergers. The merger of AnSon Production Company with and into CMC has been duly consummated in compliance with the agreement therefor and all requirements of Law. The Hugoton Merger and the DLB Merger, when required to be consummated under Section 4.2, will have been duly consummated in compliance with the terms of the respective Acquisition Documents and requirements of Law, including, but not limited to, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, the Securities Act of 1933 and the Securities Exchange Act of 1934, each as amended, and the applicable corporation act of each applicable state. As of the date of each of the Acquisition Documents and as of the date of consummation of each of the Mergers, each of the representations and warranties of each parties to such Acquisition Document was and will be true, complete and correct in all material respects.

ARTICLE VI - Affirmative Covenants of Borrower

To conform with the terms and conditions under which each Bank Party is willing to have credit outstanding to Borrower, and to induce each Bank Party to enter into this Agreement and extend credit hereunder, each Restricted Person warrants, covenants and agrees that until the full and final payment of the Obligations and the termination of this Agreement, unless Majority Lenders have previously agreed otherwise:

Section 6.1. Payment and Performance. Each Restricted Person will pay all amounts due under the Loan Documents in accordance with the terms thereof and will observe, perform and comply with every covenant, term and condition expressed or implied in the Loan Documents.

Section 6.2. Books, Financial Statements and Reports. Each Restricted Person will at all times maintain full and accurate books of account and records. Each Restricted Person will maintain a standard system of accounting, will maintain its Fiscal Year, and will furnish the following statements and reports to each Bank Party at Borrower's expense:

(a) As soon as available, and in any event within ninety (90) days after the end of each Fiscal Year, complete Consolidated and consolidating financial statements of the Restricted Persons together with all notes thereto, prepared in reasonable detail in accordance with

GAAP, together with an unqualified opinion, based on an audit using generally accepted auditing standards, by one of the six nationally recognized firms of independent certified public accountants selected by Borrower, stating that such Consolidated financial statements have been so prepared. These financial statements shall contain a Consolidated and consolidating balance sheet as of the end of such Fiscal Year and Consolidated and consolidating statements of earnings, of cash flows, and of changes in owners' equity for such Fiscal Year, each setting forth in comparative form the corresponding figures for the preceding Fiscal Year. In addition, within ninety (90) days after the end of each Fiscal Year, Borrower will furnish a report signed by such accountants (i) stating that they have read this Agreement, (ii) containing calculations showing compliance (or non-compliance) at the end of such Fiscal Year with the requirements of Sections 7.13, 7.14, 7.15 and 7.16, and (iii) further stating that in making their examination and reporting on the Consolidated financial statements described above they did not conclude that any Default existed at the end of such Fiscal Year or at the time of their report, or, if they did conclude that a Default existed, specifying its nature and period of existence.

(b) As soon as available, and in any event within forty-five (45) days after the end of each Fiscal Quarter, the Restricted Persons' Consolidated and consolidating balance sheet as of the end of such Fiscal Quarter and Consolidated and consolidating statements of the Restricted Persons' earnings and cash flows for the period from the beginning of the then current Fiscal Year to the end of such Fiscal Quarter, all in reasonable detail and prepared in accordance with GAAP, subject to changes resulting from normal year-end adjustments. In addition, Borrower will, together with each such set of financial statements and each set of financial statements furnished under subsection (a) of this section, furnish a certificate in the form of Exhibit D signed by the chief financial officer of each Borrower stating that such financial statements are accurate and complete (subject to normal year-end adjustments), stating that he has reviewed the Loan Documents, containing calculations showing compliance (or non-compliance) at the end of such Fiscal Quarter with the requirements of Sections 7.13, 7.14, 7.15 and 7.16 and stating that no Default exists at the end of such Fiscal Quarter or at the time of such certificate or specifying the nature and period of existence of any such Default.

(c) As soon as available, and in any event within ninety (90) days after the end of each Fiscal Year, complete Consolidated and consolidating financial statements of Parent with all notes thereto, prepared in reasonable detail in accordance with GAAP, together with an unqualified opinion, based on an audit using generally accepted auditing standards, by one of the six nationally recognized firms of independent certified public accountants as may be selected by Parent, stating that such Consolidated financial statements have been so prepared. These financial statements shall contain a Consolidated and consolidating balance sheet as of the end of such Fiscal Year and Consolidated and consolidating statements of earnings, of cash flows, and of changes in owners' equity for such Fiscal Year, each setting forth in comparative form the corresponding figures for the preceding Fiscal Year.

(d) As soon as available, and in any event within forty-five (45) days after the end of each Fiscal Quarter, Parent's Consolidated balance sheet as of the end of such Fiscal Quarter and Consolidated and consolidating statements of Parent's earnings and cash flows for the period from the beginning of the then current Fiscal Year to the end of such Fiscal Quarter, all in reasonable detail and prepared in accordance with GAAP, subject to changes resulting from normal year-end adjustments.

(e) Promptly upon their becoming available, copies of all financial statements, reports, notices and proxy statements sent by Parent or any Restricted Person to its stockholders and all registration statements, periodic reports and other statements and schedules filed by any Restricted Person with any securities exchange, the Securities and Exchange Commission or any similar governmental authority.

(f) By March 15 of each year, beginning March 15, 1998, an engineering report prepared as of the preceding January 1 by independent petroleum engineers chosen by Borrower and acceptable to Majority Lenders, concerning all oil and gas properties and interests owned by any Restricted Person which are located in or offshore of the United States and which have attributable to them proved oil or gas reserves. This report shall be satisfactory to Agent, shall contain sufficient information to enable Borrower to meet the reporting requirements concerning oil and gas reserves contained in Regulations S-K and S-X promulgated by the Securities and Exchange Commission, shall take into account any "over-produced" status under gas balancing arrangements, and shall contain information and analysis comparable in scope to that contained in the Initial Engineering Report. Accompanying such report, the Borrower shall deliver a report reflecting, since the date reflected in the most recent report delivered pursuant to this clause (f) or pursuant to the following clause (g), the following: (i) all property sales and pending property sales identifying the property and the sale price therefor, (ii) all property purchases and pending property purchases identifying the property and the purchase price therefor, and (iii) additional and changes in properties in each category from such previous report (i.e.: proven undeveloped, proven developed non-producing, or proven producing). The report delivered as of March 15, 1998 shall reflect all oil and gas properties and interests that will be owned by the Restricted Persons on a pro forma basis after giving effect to the Mergers.

(g) By September 15 of each year, and promptly following notice of an additional Borrowing Base redetermination under Section 2.9, an engineering report prepared as of the preceding July 1 (or the first day of the preceding calendar month in the case of an additional redetermination) by petroleum engineers who are employees of Borrower (or Chesapeake Operating Inc. under the management services agreement), together with an accompanying report on property sales, property purchases and changes in categories, both in the same form and scope as the reports in (f) above.

(h) As soon as available, and in any event within ninety (90) days after the end of each Fiscal Year, a business and financial plan for Borrower (in form reasonably satisfactory to Agent), prepared by the chief financial officer thereof, setting forth for the first year thereof, quarterly financial projections and budgets for Borrower, and thereafter yearly financial projections and budgets during the Commitment Period.

(i) As soon as available, and in any event within sixty (60) days after the end of each month, a report describing by lease or unit the gross volume of production and sales attributable to production during such month from the properties described in subsection (g) above and describing the related severance taxes, other taxes, leasehold operating expenses and capital costs attributable thereto and incurred during such month.

(j) As soon as available, and in any event within sixty (60) days after the end of each Fiscal Quarter, a report setting forth volumes, prices and margins for all marketing activities of Borrower and the other Restricted Persons and a report of all forward, future, swap or hedging contracts in such detail as Agent may request.

Section 6.3. Other Information and Inspections. Each Restricted Person will furnish to each Bank Party any information which Agent may from time to time request in writing concerning any covenant, provision or condition of the Loan Documents or any matter in connection with Parent's or Restricted Persons' businesses and operations. Each Restricted Person will permit representatives appointed by Agent (including independent accountants, auditors, agents, attorneys, appraisers and any other Persons) to visit and inspect during normal business hours any of such Restricted Person's property, including its books of account, other books and records, and any facilities or other business assets, and to make extra copies therefrom and photocopies and photographs thereof, and to write down and record any information such representatives obtain, and each Restricted Person shall permit Agent or its representatives to investigate and verify the accuracy of the information furnished to Agent or any Lender in connection with the Loan Documents and to discuss all such matters with its officers, employees and representatives.

Section 6.4. Notice of Material Events and Change of Address. Borrower will promptly notify each Bank Party in writing, stating that such notice is being given pursuant to this Agreement, of:

(a) the occurrence of any Material Adverse Change,

(b) the occurrence of any Default,

(c) the acceleration of the maturity of any Indebtedness owed by any Restricted Person or of any default by any Restricted Person under any indenture, mortgage, agreement, contract or other instrument to which any of them is a party or by which any of them or any of their properties is bound, if such acceleration or default could cause a Material Adverse Change,

(d) the occurrence of any Termination Event,

(e) any claim of $500,000 or more, any notice of potential liability under any Environmental Laws which might exceed such amount, or any other material adverse claim asserted against any Restricted Person or with respect to any Restricted Person's properties, and

(f) the filing of any suit or proceeding against any Restricted Person in which an adverse decision could cause a Material Adverse Change.

Upon the occurrence of any of the foregoing, Restricted Persons will take all necessary or appropriate steps to remedy promptly any such Material Adverse Change, Default, acceleration, default or Termination Event, to protect against any such adverse claim, to defend any such suit or proceeding, and to resolve all controversies on account of any of the foregoing. Borrower will also notify Agent and Agent's counsel in writing at least twenty Business Days prior to the date that any Restricted Person changes its name or the location of its chief executive office or principal place of business or the place where it keeps its books and records.

Section 6.5. Maintenance of Properties.

(a) Each Restricted Person will: (i) do or cause to be done all things reasonably necessary to preserve and keep in good repair, working order and efficiency (ordinary wear and tear excepted) all of the properties owned by each Restricted Person, including, without limitation, all equipment, machinery and facilities, and (ii) make all the reasonably necessary repairs, renewals and replacements so that at all times the state and condition of the properties owned by each Restricted Person will be fully preserved and maintained, except to the extent a portion of such properties are oil and gas properties no longer capable of producing hydrocarbons in economically reasonable amounts.

(b) Each Restricted Person will promptly pay and discharge or cause to be paid and discharged all delay rentals, royalties, expenses and indebtedness accruing under, and perform or cause to be performed each and every act, matter or thing required by, each and all of the assignments, deeds, leases, sub-leases, contracts and agreements affecting its interests in its properties and will do all other things necessary to keep unimpaired each Restricted Person's rights with respect thereto and prevent any forfeiture thereof or a default thereunder, except to the extent a portion of oil and gas properties is no longer capable of producing hydrocarbons in economically reasonable amounts.

(c) Each Restricted Person will operate its properties or cause or use commercially reasonably efforts to cause such properties to be operated in a careful and efficient manner in accordance with the practices of the industry and in compliance with all applicable contracts and agreements and in compliance in all material respects with all laws.

Section 6.6. Maintenance of Existence and Qualifications. Each Restricted Person will maintain and preserve its existence and its rights and franchises in full force and effect and will qualify to do business in all states or jurisdictions where required by applicable Law, except where the failure so to qualify will not cause a Material Adverse Change.

Section 6.7. Payment of Trade Liabilities, Taxes, etc. Each Restricted Person will (a) timely file all required tax returns; (b) timely pay all taxes, assessments, and other governmental charges or levies imposed upon it or upon its income, profits or property; (c) within ninety (90) days after the same becomes due pay all Liabilities owed by it on ordinary trade terms to vendors, suppliers and other Persons providing goods and services used by it in the ordinary course of its business; (d) pay and discharge when due all other Liabilities now or hereafter owed by it; and (e) maintain appropriate accruals and reserves for all of the foregoing in accordance with GAAP. Each Restricted Person may, however, delay paying or discharging any of the foregoing so long as it is in good faith contesting the validity thereof by appropriate proceedings and has set aside on its books adequate reserves therefor.

Section 6.8. Insurance. Each Restricted Person will keep or cause to be kept insured by financially sound and reputable insurers its property in accordance with the Insurance Schedule. Each Restricted Person shall at all times maintain insurance against its liability for injury to persons or property in accordance with the Insurance Schedule, which insurance shall be by financially sound and reputable insurers. Without limiting the foregoing, each Restricted Person shall at all time maintain liability insurance in the amounts set out on the Insurance Schedule.

Section 6.9. Performance on Borrower's Behalf. If any Restricted Person fails to pay any taxes, insurance premiums, expenses, attorneys' fees or other amounts it is required to pay under any

Loan Document, Agent may pay the same. Borrower shall immediately reimburse Agent for any such payments and each amount paid by Agent shall constitute an Obligation owed hereunder which is due and payable on the date such amount is paid by Agent.

Section 6.10. Interest. Borrower hereby promises to each Bank Party to pay interest at the Default Rate on all Obligations (including Obligations to pay fees or to reimburse or indemnify any Bank Party) which Borrower has in this Agreement promised to pay to such Bank Party and which are not paid when due. Such interest shall accrue from the date such Obligations become due until they are paid.

Section 6.11. Compliance with Agreements and Law. Each Restricted Person will perform all material obligations it is required to perform under the terms of each indenture, mortgage, deed of trust, security agreement, lease, franchise, agreement, contract or other instrument or obligation to which it is a party or by which it or any of its properties is bound. Each Restricted Person will conduct its business and affairs in compliance with all Laws applicable thereto.

Section 6.12. Environmental Matters; Environmental Reviews.

(a) Each Restricted Person will comply in all material respects with all Environmental Laws now or hereafter applicable to such Restricted Person and shall obtain, at or prior to the time required by applicable Environmental Laws, all environmental, health and safety permits, licenses and other authorizations necessary for its operations and will maintain such authorizations in full force and effect.

(b) Each Restricted Person will promptly furnish to Agent all written notices of violation, orders, claims, citations, complaints, penalty assessments, suits or other proceedings received by any Restricted Person, or of which it has notice, pending or threatened against any Restricted Person, by any governmental authority with respect to any alleged violation of or non-compliance in any material respect with any Environmental Laws or any permits, licenses or authorizations in connection with its ownership or use of its properties or the operation of its business.

(c) Each Restricted Person will promptly furnish to Agent all requests for information, notices of claim, demand letters, and other notifications, received by any Restricted Person in connection with its ownership or use of its properties or the conduct of its business, relating to potential responsibility which could if adversely determined result in fines or liability of a material amount with respect to any investigation or clean-up of Hazardous Material at any location.

Section 6.13. Evidence of Compliance. Each Restricted Person will furnish to each Bank Party at such Restricted Person's or Borrower's expense all evidence which Agent from time to time reasonably requests in writing as to the accuracy and validity of or compliance with all representations, warranties and covenants made by any Restricted Person in the Loan Documents, the satisfaction of all conditions contained therein, and all other matters pertaining thereto.

Section 6.14. Solvency. Upon giving effect to the issuance of the Notes, the execution of the Loan Documents by each Restricted Person, the consummation of each of the Mergers and the consummation of the transactions contemplated hereby, each Restricted Person will be solvent (as such term is used in applicable bankruptcy, liquidation, receivership, insolvency or similar laws).

Section 6.15. Guaranties of Borrower's Subsidiaries. Each Subsidiary of Borrower now existing or created, acquired or coming into existence after the date hereof shall, promptly upon request by Agent, execute and deliver to Agent an absolute and unconditional guaranty of the timely repayment of the Obligations and the due and punctual performance of the obligations of Borrower hereunder, which guaranty shall be satisfactory to Agent in form and substance. Each Subsidiary of Borrower existing on the date hereof shall duly execute and deliver such a guaranty prior to the making of any Loan hereunder. Borrower will cause each of its Subsidiaries to deliver to Agent, simultaneously with its delivery of such a guaranty, written evidence satisfactory to Agent and its counsel that such Subsidiary has taken all corporate or partnership action necessary to duly approve and authorize its execution, delivery and performance of such guaranty and any other documents which it is required to execute.

Section 6.16. Mergers. Chesapeake Acquisition and Chesapeake Merger shall cause the Mergers to be consummated as provided in Section 4.2. Promptly following each Merger, the Restricted Persons shall file certificates evidencing such Merger in each county in which such entity owns material property. Within sixty (60) days after the consummation of each Merger, the Restricted Person which is the surviving entity from such Merger shall have been merged with and into CMC, and certificates of merger with respect thereto shall be promptly filed in each county in which such entity owns material property.

ARTICLE VII - Negative Covenants of Borrower

To conform with the terms and conditions under which each Bank Party is willing to have credit outstanding to Borrower, and to induce each Bank Party to enter into this Agreement and make the Loans, each Restricted Person warrants, covenants and agrees that until the full and final payment of the Obligations and the termination of this Agreement, unless Majority Lenders have previously agreed otherwise:

Section 7.1. Indebtedness. No Restricted Person will in any manner owe or be liable for Indebtedness except:

(a) the Obligations.

(b) obligations under operating leases entered into in the ordinary course of such Restricted Person's business in arm's length transactions at competitive market rates under competitive terms and conditions in all respects, provided that the obligations required to be paid in any Fiscal Year under any such operating leases do not in the aggregate exceed $50,000.

(c) unsecured Indebtedness among the Restricted Persons arising in the ordinary course of business.

(d) Indebtedness arising under futures contracts or swap contracts permitted under Section 7.3

(e) capital leases in an aggregate principal amount not to exceed $1,000,000 at any time.

Section 7.2. Limitation on Liens. No Restricted Person will create, assume or permit to exist any Lien upon any of the properties or assets which it now owns or hereafter acquires, except the following ("Permitted Liens"):

(a) Liens which secure Obligations only.

(b) statutory Liens for taxes, statutory or contractual mechanics' and materialmen's Liens incurred in the ordinary course of business, and other similar Liens incurred in the ordinary course of business, provided such Liens do not secure Indebtedness and secure only obligations which are not delinquent or which is being contested as provided in Section 6.7.

Section 7.3. Hedging Contracts. No Restricted Person will be a party to or in any manner be liable on any forward, future, swap or hedging contract, except:

(a) contracts entered into with the purpose and effect of fixing prices on oil or gas expected to be produced by Restricted Persons, provided that at all times: (1) no such contract fixes a price for a term of more than twelve (12) months; (2) the aggregate monthly production covered by all such contracts (determined, in the case of contracts that are not settled on a monthly basis, by a monthly proration acceptable to Agent) for any single month does not in the aggregate exceed seventy-five percent (75%) of Restricted Persons' aggregate Projected Oil and Gas Production anticipated to be sold in the ordinary course of Restricted Persons' businesses for such month, (3) no such contract requires any Restricted Person to put up money, assets, letters of credit or other security against the event of its nonperformance prior to actual default by such Restricted Person in performing its obligations thereunder, and (4) each such contract is with a counterparty or has a guarantor of the obligation of the counterparty who (unless such counterparty is a Bank Party or one of its Affiliates) at the time the contract is made has long-term obligations rated AA or Aa2 or better, respectively, by either Rating Agency or is an investment grade-rated industry participant. As used in this subsection, the term "Projected Oil and Gas Production" means the projected production of oil or gas (measured by volume unit or BTU equivalent, not sales price) for the term of the contracts or a particular month, as applicable, from properties and interests owned by any Restricted Person which are located in or offshore of the United States and which have attributable to them proved oil or gas reserves, as such production is projected in the most recent report delivered pursuant to Section 6.2(f), after deducting projected production from any properties or interests sold or under contract for sale that had been included in such report and after adding projected production from any properties or interests that had not been reflected in such report but that are reflected in a separate or supplemental reports meeting the requirements of such Section 6.2(f) above and otherwise are satisfactory to Agent.

(b) contracts entered into by a Restricted Person with the purpose and effect of fixing interest rates on a principal amount of indebtedness of such Restricted Person that is accruing interest at a variable rate, provided that (1) the aggregate notional amount of such contracts never exceeds one hundred percent (100%) of the anticipated outstanding principal balance of the indebtedness to be hedged by such contracts or an average of such principal balances calculated using a generally accepted method of matching interest swap contracts to declining principal balances, (2) the floating rate index of each such contract generally matches the index used to determine the floating rates of interest on the corresponding indebtedness to be hedged by such contract and (3) each such contract is with a counterparty or has a guarantor of the obligation of the counterparty who (unless such counterparty is a Bank Party or one of its Affiliates) at the time the contract is made has long-term obligations rated AA

or Aa2 or better, respectively, by either Rating Agency or is an investment grade-rated industry participant.

Section 7.4. Limitation on Mergers, Issuances of Securities. Except as expressly provided in this Section, no Restricted Person will merge or consolidate with or into any other entity. Any Subsidiary of CAC may, however, be merged into or consolidated with another wholly owned Subsidiary of CAC (but not into CAC itself). CAC will not issue any securities other than shares of its common stock issued to Parent. No Subsidiary of CAC will issue any additional shares of its capital stock or other securities or any options, warrants or other rights to acquire such additional shares or other securities except to CAC and only to the extent not otherwise forbidden under the terms hereof. No Subsidiary of CAC which is a partnership will allow any diminution of CAC's interest (direct or indirect) therein.

Section 7.5. Limitation on Sales of Property. No Restricted Person will sell, transfer, lease, exchange, alienate or dispose of any of its material assets or properties or any material interest therein except:

(a) equipment which is worthless or obsolete or which is replaced by equipment of equal suitability and value.

(b) inventory (including oil and gas sold as produced and seismic data) which is sold in the ordinary course of business on ordinary trade terms.

(c) interests in oil and gas properties, or portions thereof, to which no proved reserves of oil, gas or other liquid or gaseous hydrocarbons are properly attributed.

(d) other property which is sold for fair consideration to a Person who is not an Affiliate, provided that, without the prior written consent of the Majority Lenders, the aggregate amount of such sales during the period between any two consecutive scheduled Determination Dates, plus sales prior to the first of such two Determination Dates of properties which were included in the information submitted to the Agent for the first of such two Determination Dates, shall not exceed $5,000,000. The value of sales under this clause shall be the greater of the sale price or the discounted present value of projected future net revenues (at 10% discount rate) reflected in the most recently delivered Engineering Report under Section 6.2.

No Restricted Person will sell, transfer or otherwise dispose of capital stock of any of CAC's Subsidiaries. No Restricted Person will discount, sell, pledge or assign any notes payable to it, accounts receivable or future income except to the extent expressly permitted under the Loan Documents.

Section 7.6. Limitation on Dividends and Redemptions. No Restricted Person will declare or pay any dividends on, or make any other distribution in respect of, any class of its capital stock or any partnership or other interest in it, nor will any Restricted Person directly or indirectly make any capital contribution to or purchase, redeem, acquire or retire any shares of the capital stock of or partnership interests in any Restricted Person (whether such interests are now or hereafter issued, outstanding or created), or cause or permit any reduction or retirement of the capital stock of any Restricted Person, except as expressly provided in this section. Such dividends, distributions, contributions, purchases,

redemptions, acquisitions, retirements or reductions may be made to CAC by its Subsidiaries or to CAC's Subsidiaries by another of its Subsidiaries.

Section 7.7. Limitation on Investments and New Businesses. No Restricted Person will (i) make any expenditure or commitment or incur any obligation or enter into or engage in any transaction except in the ordinary course of business, (ii) engage directly or indirectly in any business or conduct any operations except in connection with or incidental to its present businesses and operations, (iii) make any acquisitions of or capital contributions to or other investments in any Person, other than Permitted Investments, or (iv) make any acquisitions or investments in any properties, in excess of $500,000 in the aggregate at any one time outstanding, other than oil and gas properties, gas gathering, treating and processing properties and assets directly related thereto. No Restricted Person will make any investment in any Parent Affiliate.

Section 7.8. Limitation on Credit Extensions. Except for Permitted Investments, no Restricted Person will extend credit, make advances or make loans other than (i) normal and prudent extensions of credit to customers buying goods and services in the ordinary course of business, which extensions shall not be for longer periods than those extended by similar businesses operated in a normal and prudent manner, and (ii) loans among Restricted Persons.

Section 7.9. Transactions with Affiliates. No Restricted Person will engage in any material transaction with any of their Affiliates; provided that such restriction shall not apply to the Designated Affiliate Contracts or to transactions among Restricted Persons. Borrower shall have no Subsidiaries that are not wholly owned Subsidiaries.

Section 7.10. Certain Contracts; Multiemployer ERISA Plans; Designated Affiliate Contracts. Except as expressly provided for in the Loan Documents, no Restricted Person will, directly or indirectly, enter into, create, or otherwise allow to exist any contract or other consensual restriction on the ability of any Subsidiary of Borrower to: (i) pay dividends or make other distributions to Borrower, (ii) to redeem equity interests held in it by Borrower, (iii) to repay loans and other indebtedness owing by it to Borrower, or (iv) to transfer any of its assets to Borrower. No Restricted Person will enter into any "take-or-pay" contract or other contract or arrangement for the purchase of goods or services which obligates it to pay for such goods or service regardless of whether they are delivered or furnished to it. No ERISA Affiliate will incur any obligation to contribute to any "multiemployer plan" as defined in Section 4001 of ERISA. No Restricted Person will cause or permit (i) any Designated Affiliate Contract to be amended, modified, terminated or waived or (ii) any general or administrative expenses, management services expenses or any operating expenses to exceed the amount properly determined under the applicable Designated Affiliate Contract.

Section 7.11. Corporate Requirements. Except as required by Section 4.3(b), no Restricted Person will amend its Certificates of Incorporation, nor violate or fail to comply with any of the requirements of its Certificates of Incorporation, including without limitation, the requirements of paragraph 7, Restrictions on Corporate Action, paragraph 8, Independent Director, paragraph 9, Reservation of Right to Amend Certificate of Incorporation, or paragraph 10, Corporate Procedures and Maintenance of Separate Business.

Section 7.12. Indenture Requirements. Each Restricted Person shall at all times remain designated as "Unrestricted Subsidiaries" under the 1995 Indenture and the 1996 Indenture. No

Restricted Person shall take any action which would cause any Restricted Person to not be properly designated as an "Unrestricted Subsidiary" under the 1995 Indenture or the 1996 Indenture. CAC shall not own or lease (as lessor or lessee) any property capable of producing oil or gas or minerals or any processing or manufacturing plant or pipeline. No Restricted Person shall ever assume or become liable in any manner (whether as a co-maker, guarantor or otherwise) on any Indebtedness under any of the Indentures or any other Indebtedness or Liability of Parent or any Parent Affiliate.

Section 7.13. Interest Coverage. At the end of any Fiscal Quarter, beginning with the Fiscal Quarter ending September 30, 1998, the ratio of (a) Borrower's Consolidated EBITDA to (b) Cash Interest Expense for the four-Fiscal Quarter period ending with such Fiscal Quarter (or with respect to the Fiscal Quarters ending on September 30, 1998 and December 31, 1998, for the period from April 1, 1998 to the end of such Fiscal Quarter) will never be less than 3.0 to 1.0. As used herein, "Cash Interest Expense" means interest paid, plus amortization of original issue discount, plus interest component of capital lease obligations, in each case by Borrower and its Subsidiaries.

Section 7.14. EBITDA Coverage. At the end of any Fiscal Quarter, beginning with the Fiscal Quarter ending September 30, 1998, the ratio of (a) Borrower's Consolidated total Indebtedness at the end of each Fiscal Quarter to Borrower's Consolidated EBITDA for the four-Fiscal Quarter period ending with such Fiscal Quarter will never be greater than 3.5 to 1.0; provided, however, with respect to the Fiscal Quarters ending on September 30, 1998 and December 31, 1998, EBITDA shall be annualized by multiplying the EBITDA for the period from April 1, 1998 to the end of such applicable Fiscal Quarter by a fraction the denominator of which is the number of days in such period and the numerator of which is 365.

Section 7.15. Tangible Net Worth. Borrower's Consolidated Tangible Net Worth will never be less than the sum of (i) 85% of Borrower's Consolidated Tangible Net Worth as of March 31, 1998, plus (ii) 50% of Transactional Increases to Tangible Net Worth occurring after March 31, 1998 (or 85% in the case of the Hugoton Merger or the DLB Merger, if either Merger occurs after March 31, 1998), plus (iii) the amount equal to 50% of Borrower's Consolidated net income (if positive) for the period from March 31, 1998 through December 31, 1998, plus (iv) the amount equal to 50% of Borrower's Consolidated net income (if positive) for each fiscal year from and including the fiscal year ending December 31, 1999. As used herein "Transactional Increases to Tangible Net Worth" means the resulting increase to Borrower's Consolidated Tangible Net Worth from (a) sale or issuance of any equity security by any Restricted Person, (b) any other form of capital contribution or equity investment into any Restricted Person, and whether consisting of contribution of cash or other asset, or (c) any merger or consolidation to which any Restricted Person is a party.

Section 7.16. Current Ratio. The ratio of Borrower's Consolidated current assets, plus the unused portion of the Borrowing Base, to Borrower's Consolidated current liabilities will never be less than 1.0 to 1.0. For purposes of this section, current liabilities will include LC Obligations, regardless of whether or not contingent (but without duplication) but will exclude the current portion of long term debt.

ARTICLE VIII - Events of Default and Remedies

Section 8.1. Events of Default. Each of the following events constitutes an Event of Default under this Agreement:

(a) Any Restricted Person fails to pay the principal component of any Obligation when due and payable, whether at a date for the payment of a fixed installment or as a contingent or other payment becomes due and payable or as a result of acceleration or otherwise;

(b) Any Restricted Person fails to pay any Obligation (other than the Obligations in clause (a) above) when due and payable, whether at a date for the payment of a fixed installment or as a contingent or other payment becomes due and payable or as a result of acceleration or otherwise, within three Business Days after the same becomes due;

(c) Any "default" or "event of default" occurs under any Loan Document which defines either such term, and the same is not remedied within the applicable period of grace (if any) provided in such Loan Document;

(d) Any Restricted Person fails to duly observe, perform or comply with any covenant, agreement or provision of Section 6.4 or Article VII;

(e) Any Restricted Person fails (other than as referred to in subsections (a), (b), (c) or (d) above) to duly observe, perform or comply with any covenant, agreement, condition or provision of any Loan Document, and such failure remains unremedied for a period of thirty (30) days after notice of such failure is given by Agent to Borrower;

(f) Any representation or warranty previously, presently or hereafter made in writing by or on behalf of any Restricted Person in connection with any Loan Document shall prove to have been false or incorrect in any material respect on any date on or as of which made, or any Loan Document at any time ceases to be valid, binding and enforceable as warranted in Section 5.5 for any reason other than its release or subordination by Agent;

(g) Any Restricted Person fails to duly observe, perform or comply with any agreement with any Person or any term or condition of any instrument, if such agreement or instrument is materially significant to Borrower or to Borrower and its Subsidiaries on a Consolidated basis or materially significant to any Guarantor, and such failure is not remedied within the applicable period of grace (if any) provided in such agreement or instrument;

(h) Any Restricted Person or any Parent Affiliate (i) fails to pay any portion, when such portion is due, of any of its Indebtedness in excess of $100,000 in the case of a Restricted Person, or in excess of $1,000,000 in the case of any Parent Affiliate, or (ii) breaches or defaults in the performance of any agreement or instrument by which any such Indebtedness is issued, evidenced, governed, or secured, and any such failure, breach or default continues beyond any applicable period of grace provided therefor;

(i) Either (i) any "accumulated funding deficiency" (as defined in Section 412(a) of the Internal Revenue Code of 1986, as amended) in excess of $100,000 exists with respect to any ERISA Plan, whether or not waived by the Secretary of the Treasury or his delegate, or (ii) any Termination Event occurs with respect to any ERISA Plan and the then current value of such ERISA Plan's benefit

liabilities exceeds the then current value of such ERISA Plan's assets available for the payment of such benefit liabilities by more than $100,000 (or in the case of a Termination Event involving the withdrawal of a substantial employer, the withdrawing employer's proportionate share of such excess exceeds such amount); and

(j) Any Restricted Person or any Parent Affiliate:

(i) suffers the entry against it of a judgment, decree or order for relief by a Tribunal of competent jurisdiction in an involuntary proceeding commenced under any applicable bankruptcy, insolvency or other similar Law of any jurisdiction now or hereafter in effect, including the federal Bankruptcy Code, as from time to time amended, or has any such proceeding commenced against it which remains undismissed for a period of thirty days; or

(ii) commences a voluntary case under any applicable bankruptcy, insolvency or similar Law now or hereafter in effect, including the federal Bankruptcy Code, as from time to time amended; or applies for or consents to the entry of an order for relief in an involuntary case under any such Law; or makes a general assignment for the benefit of creditors; or fails generally to pay (or admits in writing its inability to pay) its debts as such debts become due; or takes corporate or other action to authorize any of the foregoing; or

(iii) suffers the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of all or a substantial part of its assets in a proceeding brought against or initiated by it, and such appointment or taking possession is neither made ineffective nor discharged within thirty days after the making thereof, or such appointment or taking possession is at any time consented to, requested by, or acquiesced to by it; or

(iv) suffers the entry against it of a final judgment for the payment of money in excess of $500,000 (not covered by insurance satisfactory to Agent in its discretion), unless the same is discharged within thirty days after the date of entry thereof or an appeal or appropriate proceeding for review thereof is taken within such period and a stay of execution pending such appeal is obtained; or

(v) suffers a writ or warrant of attachment or any similar process to be issued by any Tribunal against all or any substantial part of its assets, and such writ or warrant of attachment or any similar process is not stayed or released within thirty days after the entry or levy thereof or after any stay is vacated or set aside; and

(k) Any Change in Control occurs; and

(l) Any Material Adverse Change occurs.

Upon the occurrence of an Event of Default described in subsection (j)(i), (j)(ii) or (j)(iii) of this section with respect to Borrower, all of the Obligations shall thereupon be immediately due and payable, without demand, presentment, notice of demand or of dishonor and nonpayment, protest, notice of protest, notice of intention to accelerate, declaration or notice of acceleration, or any other notice or declaration of any kind, all of which are hereby expressly waived by Borrower and each Restricted

Person who at any time ratifies or approves this Agreement. Upon any such acceleration, any obligation of any Lender to make any further Loans shall be permanently terminated. During the continuance of any other Event of Default, Agent at any time and from time to time may (and upon written instructions from Majority Lenders, Agent shall), without notice to Borrower or any other Restricted Person, do either or both of the following: (1) terminate any obligation of Lenders to make Loans hereunder, and (2) declare any or all of the Obligations immediately due and payable, and all such Obligations shall thereupon be immediately due and payable, without demand, presentment, notice of demand or of dishonor and nonpayment, protest, notice of protest, notice of intention to accelerate, declaration or notice of acceleration, or any other notice or declaration of any kind, all of which are hereby expressly waived by Borrower and each Restricted Person who at any time ratifies or approves this Agreement.

Section 8.2. Remedies. If any Default shall occur and be continuing, Agent may protect and enforce Lenders' rights under the Loan Documents by any appropriate proceedings, including proceedings for specific performance of any covenant or agreement contained in any Loan Document, and Agent may enforce the payment of any Obligations due Lenders or enforce any other legal or equitable right which it may have. All rights, remedies and powers conferred upon Bank Parties under the Loan Documents shall be deemed cumulative and not exclusive of any other rights, remedies or powers available under the Loan Documents or at Law or in equity.

ARTICLE IX - Agent

Section 9.1. Appointment and Authority. Each Bank Party hereby irrevocably authorizes Agent, and Agent hereby undertakes, to receive payments of principal, interest and other amounts due hereunder as specified herein and to take all other actions and to exercise such powers under the Loan Documents as are specifically delegated to Agent by the terms hereof or thereof, together with all other powers reasonably incidental thereto. The relationship of Agent to the other Bank Parties is only that of one commercial lender acting as agent for others, and nothing in the Loan Documents shall be construed to constitute Agent a trustee or other fiduciary for any holder of any of the Notes or of any participation therein nor to impose on Agent duties and obligations other than those expressly provided for in the Loan Documents. With respect to any matters not expressly provided for in the Loan Documents and any matters which the Loan Documents place within the discretion of Agent, Agent shall not be required to exercise any discretion or take any action, and it may request instructions from Lenders with respect to any such matter, in which case it shall be required to act or to refrain from acting (and shall be fully protected and free from liability to all Lenders in so acting or refraining from acting) upon the instructions of Majority Lenders (including itself), provided, however, that Agent shall not be required to take any action which exposes it to a risk of personal liability that it considers unreasonable or which is contrary to the Loan Documents or to applicable Law. Upon receipt by Agent from Borrower of any communication calling for action on the part of Lenders or upon notice from any other Bank Party to Agent of any Default or Event of Default, Agent shall promptly notify each other Bank Party thereof. No Lender designated as a Co-Agent shall have any duties nor any liabilities hereunder by reason of such Co-Agent designation.

Section 9.2. Exculpation, Agent's Reliance, Etc. Neither Agent nor any of its directors, officers, agents, attorneys, or employees shall be liable for any action taken or omitted to be taken by any of them under or in connection with the Loan Documents, INCLUDING THEIR NEGLIGENCE OF ANY KIND, except that each shall be liable for its own gross negligence or willful misconduct.

Without limiting the generality of the foregoing, Agent (a) may treat the payee of any Note as the holder thereof until Agent receives written notice of the assignment or transfer thereof in accordance with this Agreement, signed by such payee and in form satisfactory to Agent; (b) may consult with legal counsel (including counsel for Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (c) makes no warranty or representation to any other Bank Party and shall not be responsible to any other Bank Party for any statements, warranties or representations made in or in connection with the Loan Documents; (d) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of the Loan Documents on the part of any Restricted Person or to inspect the property (including the books and records) of any Restricted Person; (e) shall not be responsible to any other Bank Party for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of any Loan Document or any instrument or document furnished in connection therewith; (f) may rely upon the representations and warranties of each Restricted Person and the Lenders in exercising its powers hereunder; and (g) shall incur no liability under or in respect of the Loan Documents by acting upon any notice, consent, certificate or other instrument or writing (including any telecopy, telegram, cable or telex) believed by it to be genuine and signed or sent by the proper Person or Persons.

Section 9.3. Credit Decisions. Each Bank Party acknowledges that it has, independently and without reliance upon any other Bank Party, made its own analysis of Borrower and the transactions contemplated hereby and its own independent decision to enter into this Agreement and the other Loan Documents. Each Bank Party also acknowledges that it will, independently and without reliance upon any other Bank Party and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents.

Section 9.4. Indemnification. Each Lender agrees to indemnify Agent (to the extent not reimbursed by Borrower within ten (10) days after demand) from and against such Lender's Percentage Share of any and all liabilities, obligations, claims, losses, damages, penalties, fines, actions, judgments, suits, settlements, costs, expenses or disbursements (including reasonable fees of attorneys, accountants, experts and advisors) of any kind or nature whatsoever (in this section collectively called "liabilities and costs") which to any extent (in whole or in part) may be imposed on, incurred by, or asserted against Agent growing out of, resulting from or in any other way associated with the Loan Documents and the transactions and events (including the enforcement thereof) at any time associated therewith or contemplated therein (including any violation or noncompliance with any Environmental Laws by any Person or any liabilities or duties of any Person with respect to Hazardous Materials found in or released into the environment).

THE FOREGOING INDEMNIFICATION SHALL APPLY WHETHER OR NOT SUCH LIABILITIES AND COSTS ARE IN ANY WAY OR TO ANY EXTENT OWED, IN WHOLE OR IN PART, UNDER ANY CLAIM OR THEORY OF STRICT LIABILITY, OR ARE CAUSED, IN WHOLE OR IN PART, BY ANY NEGLIGENT ACT OR OMISSION OF ANY KIND BY AGENT,

provided only that no Lender shall be obligated under this section to indemnify Agent for that portion, if any, of any liabilities and costs which is proximately caused by Agent's own individual gross negligence or willful misconduct, as determined in a final judgment. Cumulative of the foregoing, each

Lender agrees to reimburse Agent promptly upon demand for such Lender's Percentage Share of any costs and expenses to be paid to Agent by Borrower under Section 10.4(a) to the extent that Agent is not timely reimbursed for such expenses by Borrower as provided in such section. As used in this section the term "Agent" shall refer not only to the Person designated as such in Section 1.1 but also to each director, officer, agent, attorney, employee, representative and Affiliate of such Person.

Section 9.5. Rights as Lender. In its capacity as a Lender, Agent shall have the same rights and obligations as any Lender and may exercise such rights as though it were not Agent. Agent may accept deposits from, lend money to, act as Trustee under indentures of, and generally engage in any kind of business with any Restricted Person or their Affiliates, all as if it were not Agent hereunder and without any duty to account therefor to any other Lender.

Section 9.6. Sharing of Set-Offs and Other Payments. Each Bank Party agrees that if it shall, whether through the exercise of rights of banker's lien, set off, or counterclaim against Borrower or otherwise, obtain payment of a portion of the aggregate Obligations owed to it which, taking into account all distributions made by Agent under Section 3.1, causes such Bank Party to have received more than it would have received had such payment been received by Agent and distributed pursuant to Section 3.1, then (a) it shall be deemed to have simultaneously purchased and shall be obligated to purchase interests in the Obligations as necessary to cause all Bank Parties to share all payments as provided for in Section 3.1, and (b) such other adjustments shall be made from time to time as shall be equitable to ensure that Agent and all Lenders share all payments of Obligations as provided in Section 3.1; provided, however, that nothing herein contained shall in any way affect the right of any Bank Party to obtain payment (whether by exercise of rights of banker's lien, set-off or counterclaim or otherwise) of indebtedness other than the Obligations. Borrower expressly consents to the foregoing arrangements and agrees that any holder of any such interest or other participation in the Obligations, whether or not acquired pursuant to the foregoing arrangements, may to the fullest extent permitted by Law exercise any and all rights of banker's lien, set-off, or counterclaim as fully as if such holder were a holder of the Obligations in the amount of such interest or other participation. If all or any part of any funds transferred pursuant to this section is thereafter recovered from the seller under this section which received the same, the purchase provided for in this section shall be deemed to have been rescinded to the extent of such recovery, together with interest, if any, if interest is required pursuant to Tribunal order to be paid on account of the possession of such funds prior to such recovery.

Section 9.7. Investments. Whenever Agent in good faith determines that it is uncertain about how to distribute to Lenders any funds which it has received, or whenever Agent in good faith determines that there is any dispute among Lenders about how such funds should be distributed, Agent may choose to defer distribution of the funds which are the subject of such uncertainty or dispute. If Agent in good faith believes that the uncertainty or dispute will not be promptly resolved, or if Agent is otherwise required to invest funds pending distribution to Lenders, Agent shall invest such funds pending distribution; all interest on any such investment shall be distributed upon the distribution of such investment and in the same proportion and to the same Persons as such investment. All moneys received by Agent for distribution to Lenders (other than to the Person who is Agent in its separate capacity as a Lender) shall be held by Agent pending such distribution solely as Agent for such Lenders, and Agent shall have no equitable title to any portion thereof.

Section 9.8. Benefit of Article IX. The provisions of this Article (other than the following Section 9.9) are intended solely for the benefit of Bank Parties, and no Restricted Person shall be

entitled to rely on any such provision or assert any such provision in a claim or defense against any Bank Party. Bank Parties may waive or amend such provisions as they desire without any notice to or consent of Borrower or any Restricted Person.

Section 9.9. Resignation. Agent may resign at any time by giving written notice thereof to Lenders and Borrower. Each such notice shall set forth the date of such resignation. Upon any such resignation, Majority Lenders shall have the right to appoint a successor Agent. A successor must be appointed for any retiring Agent, and such Agent's resignation shall become effective when such successor accepts such appointment. If, within thirty days after the date of the retiring Agent's resignation, no successor Agent has been appointed and has accepted such appointment, then the retiring Agent may appoint a successor Agent, which shall be a commercial bank organized or licensed to conduct a banking or trust business under the Laws of the United States of America or of any state thereof. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, the retiring Agent shall be discharged from its duties and obligations under this Agreement and the other Loan Documents. After any retiring Agent's resignation hereunder the provisions of this Article IX shall continue to inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under the Loan Documents.

ARTICLE X - Miscellaneous

Section 10.1. Waivers and Amendments; Acknowledgements.

(a) Waivers and Amendments. No failure or delay (whether by course of conduct or otherwise) by any Bank Party in exercising any right, power or remedy which such Bank Party may have under any of the Loan Documents shall operate as a waiver thereof or of any other right, power or remedy, nor shall any single or partial exercise by any Bank Party of any such right, power or remedy preclude any other or further exercise thereof or of any other right, power or remedy. No waiver of any provision of any Loan Document and no consent to any departure therefrom shall ever be effective unless it is in writing and signed as provided below in this section, and then such waiver or consent shall be effective only in the specific instances and for the purposes for which given and to the extent specified in such writing. No notice to or demand on any Restricted Person shall in any case of itself entitle any Restricted Person to any other or further notice or demand in similar or other circumstances. This Agreement and the other Loan Documents set forth the entire understanding between the parties hereto with respect to the transactions contemplated herein and therein and supersede all prior discussions and understandings with respect to the subject matter hereof and thereof, and no waiver, consent, release, modification or amendment of or supplement to this Agreement or the other Loan Documents shall be valid or effective against any party hereto unless the same is in writing and signed by (i) if such party is Borrower, by Borrower, (ii) if such party is Agent or LC Issuer, by such party, and (iii) if such party is a Lender, by such Lender or by Agent on behalf of Lenders with the written consent of Majority Lenders (which consent has already been given as to the termination of the Loan Documents as provided in Section 10.9). Notwithstanding the foregoing or anything to the contrary herein, Agent shall not, without the prior consent of each individual Lender, execute and deliver on behalf of such Lender any waiver or amendment which would: (1) waive any of the conditions specified in Article IV (provided that Agent may in its discretion withdraw any request it has made under Section 4.4(f)), (2) increase the Borrowing Base above the maximum amount which requires the agreement of all Lenders pursuant to the last sentence of Section 2.09(a) or subject such Lender to any additional obligations, (3) reduce any fees payable to such Lender hereunder, or the

principal of, or interest on, such Lender's Note, (4) postpone any date fixed for any payment of any such fees, principal or interest, (5) amend the definition herein of "Majority Lenders", "Required Lenders" or otherwise change the aggregate amount of Percentage Shares which is required for Agent, Lenders or any of them to take any particular action under the Loan Documents, or (6) release Borrower from its obligation to pay such Lender's Note or any Guarantor from its guaranty of such payment.

(b) Acknowledgements and Admissions. Borrower hereby represents, warrants, acknowledges and admits that (i) it has been advised by counsel in the negotiation, execution and delivery of the Loan Documents to which it is a party, (ii) it has made an independent decision to enter into this Agreement and the other Loan Documents to which it is a party, without reliance on any representation, warranty, covenant or undertaking by Agent or any Lender, whether written, oral or implicit, other than as expressly set out in this Agreement or in another Loan Document delivered on or after the date hereof, (iii) there are no representations, warranties, covenants, undertakings or agreements by any Bank Party as to the Loan Documents except as expressly set out in this Agreement or in another Loan Document delivered on or after the date hereof, (iv) no Bank Party has any fiduciary obligation toward Borrower with respect to any Loan Document or the transactions contemplated thereby, (v) the relationship pursuant to the Loan Documents between Borrower and the other Restricted Persons, on one hand, and each Bank Party, on the other hand, is and shall be solely that of debtor and creditor, respectively, (vi) no partnership or joint venture exists with respect to the Loan Documents between any Restricted Person and any Bank Party, (vii) Agent is not Borrower's Agent, but Agent for Lenders, (viii) should an Event of Default or Default occur or exist, each Bank Party will determine in its sole discretion and for its own reasons what remedies and actions it will or will not exercise or take at that time, (ix) without limiting any of the foregoing, Borrower is not relying upon any representation or covenant by any Bank Party, or any representative thereof, and no such representation or covenant has been made, that any Bank Party will, at the time of an Event of Default or Default, or at any other time, waive, negotiate, discuss, or take or refrain from taking any action permitted under the Loan Documents with respect to any such Event of Default or Default or any other provision of the Loan Documents, and (x) all Bank Parties have relied upon the truthfulness of the acknowledgements in this section in deciding to execute and deliver this Agreement and to become obligated hereunder.

(c) Joint Acknowledgment. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Section 10.2. Survival of Agreements; Cumulative Nature. All of Restricted Persons' various representations, warranties, covenants and agreements in the Loan Documents shall survive the execution and delivery of this Agreement and the other Loan Documents and the performance hereof and thereof, including the making or granting of the Loans and the delivery of the Notes and the other Loan Documents, and shall further survive until all of the Obligations are paid in full to each Bank Party and all of Bank Parties' obligations to Borrower are terminated. All statements and agreements contained in any certificate or other instrument delivered by any Restricted Person to any Bank Party under any Loan Document shall be deemed representations and warranties by Borrower or agreements

and covenants of Borrower under this Agreement. The representations, warranties, indemnities, and covenants made by Restricted Persons in the Loan Documents, and the rights, powers, and privileges granted to Bank Parties in the Loan Documents, are cumulative, and, except for expressly specified waivers and consents, no Loan Document shall be construed in the context of another to diminish, nullify, or otherwise reduce the benefit to any Bank Party of any such representation, warranty, indemnity, covenant, right, power or privilege. In particular and without limitation, no exception set out in this Agreement to any representation, warranty, indemnity, or covenant herein contained shall apply to any similar representation, warranty, indemnity, or covenant contained in any other Loan Document, and each such similar representation, warranty, indemnity, or covenant shall be subject only to those exceptions which are expressly made applicable to it by the terms of the various Loan Documents.

Section 10.3. Notices. All notices, requests, consents, demands and other communications required or permitted under any Loan Document shall be in writing, unless otherwise specifically provided in such Loan Document (provided that Agent may give telephonic notices to the other Bank Parties), and shall be deemed sufficiently given or furnished if delivered by personal delivery, by telecopy or telex, by delivery service with proof of delivery, or by registered or certified United States mail, postage prepaid, to Borrower and Restricted Persons at the address of Borrower specified on the signature pages hereto and to each Bank Party at its address specified on the signature pages hereto (unless changed by similar notice in writing given by the particular Person whose address is to be changed). Any such notice or communication shall be deemed to have been given (a) in the case of personal delivery or delivery service, as of the date of first attempted delivery during normal business hours at the address provided herein, (b) in the case of telecopy or telex, upon receipt, or (c) in the case of registered or certified United States mail, three days after deposit in the mail; provided, however, that no Borrowing Notice shall become effective until actually received by Agent.

Section 10.4. Payment of Expenses; Indemnity.

(a) Payment of Expenses. Whether or not the transactions contemplated by this Agreement are consummated, Borrower will promptly (and in any event, within 30 days after any invoice or other statement or notice) pay: (i) all transfer, stamp, mortgage, documentary or other similar taxes, assessments or charges levied by any governmental or revenue authority in respect of this Agreement or any of the other Loan Documents or any other document referred to herein or therein, (ii) all reasonable costs and expenses incurred by or on behalf of Agent (including attorneys' fees, consultants' fees and engineering fees, travel costs and miscellaneous expenses) in connection with (1) the negotiation, preparation, execution and delivery of the Loan Documents, and any and all consents, waivers or other documents or instruments relating thereto, (2) the filing, recording, refiling and re-recording of any Loan Documents and any other documents or instruments or further assurances required to be filed or recorded or refiled or re-recorded by the terms of any Loan Document, (3) the borrowings hereunder and other action reasonably required in the course of administration hereof, (4) monitoring or confirming (or preparation or negotiation of any document related to) Borrower's compliance with any covenants or conditions contained in this Agreement or in any Loan Document, and (iii) all reasonable costs and expenses incurred by or on behalf of any Bank Party (including attorneys' fees, consultants' fees and accounting fees) in connection with the defense or enforcement of any of the Loan Documents (including this section) or the defense of any Bank Party's exercise of its rights thereunder. In addition to the foregoing, until and all Obligations have been paid in full, Borrower will also pay or reimburse Agent for all reasonable out-of-pocket costs and expenses of

Agent or its agents or employees in connection with the continuing administration of the Loans and the related due diligence of Agent, including travel and miscellaneous expenses and fees and expenses of Agent's outside counsel, reserve engineers and consultants engaged in connection with the Loan Documents.

(b) Indemnity. Borrower agrees to indemnify each Bank Party, upon demand, from and against any and all liabilities, obligations, claims, losses, damages, penalties, fines, actions, judgments, suits, settlements, costs, expenses or disbursements (including reasonable fees of attorneys, accountants, experts and advisors) of any kind or nature whatsoever (in this section collectively called "liabilities and costs") which to any extent (in whole or in part) may be imposed on, incurred by, or asserted against such Bank Party growing out of, resulting from or in any other way associated with the Loan Documents and the transactions and events (including the enforcement or defense thereof) at any time associated therewith or contemplated therein (including any violation or noncompliance with any Environmental Laws by any Restricted Person or any liabilities or duties of any Restricted Person or any Bank Party with respect to Hazardous Materials found in or released into the environment).

THE FOREGOING INDEMNIFICATION SHALL APPLY WHETHER OR NOT SUCH LIABILITIES AND COSTS ARE IN ANY WAY OR TO ANY EXTENT OWED, IN WHOLE OR IN PART, UNDER ANY CLAIM OR THEORY OF STRICT LIABILITY, OR ARE CAUSED, IN WHOLE OR IN PART, BY ANY NEGLIGENT ACT OR OMISSION OF ANY KIND BY ANY BANK PARTY,

provided only that no Bank Party shall be entitled under this section to receive indemnification for that portion, if any, of any liabilities and costs which is proximately caused by its own individual gross negligence or willful misconduct, as determined in a final judgment. If any Person (including Borrower or any of its Affiliates) ever alleges such gross negligence or willful misconduct by any Bank Party, the indemnification provided for in this section shall nonetheless be paid upon demand, subject to later adjustment or reimbursement, until such time as a court of competent jurisdiction enters a final judgment as to the extent and effect of the alleged gross negligence or willful misconduct. As used in this section the term "Bank Parties" shall refer not only to the Persons designated as such in Section 1.1 but also to each director, officer, agent, attorney, employee, representative and Affiliate of such Persons.

Section 10.5. Joint and Several Liability; Parties in Interest; Assignments. All Obligations which are incurred by two or more Restricted Persons shall be their joint and several obligations and liabilities. All grants, covenants and agreements contained in the Loan Documents shall bind and inure to the benefit of the parties thereto and their respective successors and assigns; provided, however, that no Restricted Person may assign or transfer any of its rights or delegate any of its duties or obligations under any Loan Document without the prior consent of all of the Lenders. Neither Borrower nor any Affiliates of Borrower shall directly or indirectly purchase or otherwise retire any Obligations owed to any Lender nor will any Lender accept any offer to do so, unless each Lender shall have received substantially the same offer with respect to the same Percentage Share of the Obligations owed to it. If Borrower or any Affiliate of Borrower at any time purchases some but less than all of the Obligations owed to all Bank Parties, such purchaser shall not be entitled to any rights of any Bank Party under the Loan Documents unless and until Borrower or its Affiliates have purchased all of the Obligations.

(b) No Lender shall sell any participation interest in its commitment hereunder or any of its rights under its Loans or under the Loan Documents to any Person only if the agreement between such Lender and such participant at all times provides: (i) that such participation exists only as a result of the agreement between such participant and such Lender and that such transfer does not give such participant any right to vote as a Lender or any other direct claims or rights against any Person other than such Lender, (ii) that such participant is not entitled to payment from any Restricted Person under Sections 3.2 through 3.6 of amounts in excess of those payable to such Lender under such sections (determined without regard to the sale of such participation), and (iii) unless such participant is an Affiliate of such Lender, that such participant shall not be entitled to require such Lender to take any action under any Loan Document or to obtain the consent of such participant prior to taking any action under any Loan Document, except for actions which would require the consent of all Lenders under the next-to-last sentence of subsection (a) of Section 10.1. No Lender selling such a participation shall, as between the other parties hereto and such Lender, be relieved of any of its obligations hereunder as a result of the sale of such participation. Each Lender which sells any such participation to any Person (other than an Affiliate of such Lender) shall give prompt notice thereof to Agent and Borrower.

(c) Except for sales of participations under the immediately preceding subsection (b), no Lender shall make any assignment or transfer of any kind of its commitments or any of its rights under its Loans or under the Loan Documents, except for assignments to an Eligible Transferee, and then only if such assignment is made in accordance with the following requirements:

(i) Each such assignment shall apply to all Obligations owing to the assignor Lender hereunder and to the unused portion of the assignor Lender's commitments, so that after such assignment is made the assignor Lender shall have a fixed (and not a varying) Percentage Share in its Loans and Note and be committed to make that Percentage Share of all future Loans, the assignee shall have a fixed Percentage Share in such Loans and Note and be committed to make that Percentage Share of all future Loans, and the Percentage Share of the Maximum Loan Amount of both the assignor and assignee shall equal or exceed $5,000,000.

(ii) The parties to each such assignment shall execute and deliver to Agent, for its acceptance and recording in the "Register" (as defined below in this section), an Assignment and Acceptance in the form of Exhibit H, appropriately completed, together with the Note subject to such assignment and a processing fee payable to Agent of $2,500. Upon such execution, delivery, and payment and upon the satisfaction of the conditions set out in such Assignment and Acceptance, then (i) Borrower shall issue new Notes to such assignor and assignee upon return of the old Notes to Borrower, and (ii) as of the "Settlement Date" specified in such Assignment and Acceptance the assignee thereunder shall be a party hereto and a Lender hereunder and Agent shall thereupon deliver to Borrower and each Lender a schedule showing the revised Percentage Shares of such assignor Lender and such assignee Lender and the Percentage Shares of all other Lenders.

(iii) Each assignee Lender which is not a United States person (as such term is defined in Section 7701(a)(30) of the Internal Revenue Code of 1986, as amended) for Federal income tax purposes, shall (to the extent it has not already done so) provide Agent and Borrower with the "Prescribed Forms" referred to in Section 3.6(d).

(d) Nothing contained in this section shall prevent or prohibit any Lender from assigning or pledging all or any portion of its Loans and Note to any Federal Reserve Bank as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank; provided that no such assignment or pledge shall relieve such Lender from its obligations hereunder.

(e) By executing and delivering an Assignment and Acceptance, each assignee Lender thereunder will be confirming to and agreeing with Borrower, Agent and each other Lender hereunder that such assignee understands and agrees to the terms hereof, including Article IX hereof.

(f) Agent shall maintain a copy of each Assignment and Acceptance and a register for the recordation of the names and addresses of Lenders and the Percentage Shares of, and principal amount of the Loans owing to, each Lender from time to time (in this section called the "Register"). The entries in the Register shall be conclusive, in the absence of manifest error, and Borrower and each Bank Party may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes. The Register shall be available for inspection by Borrower or any Bank Party at any reasonable time and from time to time upon reasonable prior notice.

Section 10.6. Confidentiality. Each Bank Party agrees that it will take all reasonable steps to keep confidential any proprietary information given to it by any Restricted Person, provided, however, that this restriction shall not apply to information which (i) has at the time in question entered the public domain, (ii) is required to be disclosed by Law (whether valid or invalid) of any Tribunal, (iii) is disclosed to any Bank Party's Affiliates, auditors, attorneys, or agents, (iv) is furnished to any other Bank Party or to any purchaser or prospective purchaser of participations or other interests in any Loan or Loan Document, or (v) is disclosed in the course of enforcing its rights and remedies during the existence of an Event of Default.

Section 10.7. Governing Law; Submission to Process.

EXCEPT TO THE EXTENT THAT THE LAW OF ANOTHER JURISDICTION IS EXPRESSLY ELECTED IN A LOAN DOCUMENT, THE LOAN DOCUMENTS SHALL BE DEEMED CONTRACTS AND INSTRUMENTS MADE UNDER THE LAWS OF THE STATE OF TEXAS AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF TEXAS AND THE LAWS OF THE UNITED STATES OF AMERICA, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. CHAPTER 15 OF TEXAS REVISED CIVIL STATUTES ANNOTATED ARTICLE 5069 (WHICH REGULATES CERTAIN REVOLVING CREDIT LOAN ACCOUNTS AND REVOLVING TRI-PARTY ACCOUNTS) DOES NOT APPLY TO THIS AGREEMENT OR TO THE NOTES. BORROWER HEREBY IRREVOCABLY SUBMITS ITSELF AND EACH OTHER RESTRICTED PERSON TO THE NON-EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS SITTING IN THE STATE OF TEXAS AND AGREES AND CONSENTS THAT SERVICE OF PROCESS MAY BE MADE UPON IT OR ANY RESTRICTED PERSON IN ANY LEGAL PROCEEDING RELATING TO THE LOAN DOCUMENTS OR THE OBLIGATIONS BY ANY MEANS ALLOWED UNDER TEXAS OR FEDERAL LAW. ANY LEGAL PROCEEDING ARISING OUT OF OR IN ANY WAY RELATED TO ANY OF THE LOAN DOCUMENTS SHALL BE BROUGHT AND LITIGATED EXCLUSIVELY IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS, DALLAS DIVISION, TO THE EXTENT IT HAS SUBJECT MATTER JURISDICTION, AND OTHERWISE IN THE TEXAS DISTRICT COURTS SITTING IN DALLAS COUNTY, TEXAS. THE PARTIES

HERETO HEREBY WAIVE AND AGREE NOT TO ASSERT, BY WAY OF MOTION, AS A DEFENSE OR OTHERWISE, THAT ANY SUCH PROCEEDING IS BROUGHT IN AN INCONVENIENT FORUM OR THAT THE VENUE THEREOF IS IMPROPER, AND FURTHER AGREE TO A TRANSFER OF ANY SUCH PROCEEDING TO A FEDERAL COURT SITTING IN THE STATE OF TEXAS TO THE EXTENT THAT IT HAS SUBJECT MATTER JURISDICTION, AND OTHERWISE TO A STATE COURT IN DALLAS, TEXAS. IN FURTHERANCE THEREOF, BORROWER AND BANK PARTIES EACH HEREBY ACKNOWLEDGE AND AGREE THAT IT WAS NOT INCONVENIENT FOR THEM TO NEGOTIATE AND RECEIVE FUNDING OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT IN SUCH COUNTY AND THAT IT WILL BE NEITHER INCONVENIENT NOR UNFAIR TO LITIGATE OR OTHERWISE RESOLVE ANY DISPUTES OR CLAIMS IN A COURT SITTING IN SUCH COUNTY.

Section 10.8. Usury. Bank Parties, Restricted Persons and any other parties to the Loan Documents intend to contract in strict compliance with applicable usury law from time to time in effect. In furtherance thereof such Persons stipulate and agree that none of the terms and provisions contained in the Loan Documents shall ever be construed to create a contract to pay, for the use, forbearance or detention of money, interest in excess of the maximum amount of interest permitted to be charged by applicable law from time to time in effect. Neither any Restricted Person nor any present or future guarantors, endorsers, or other Persons hereafter becoming liable for payment of any Obligation shall ever be liable for unearned interest thereon or shall ever be required to pay interest thereon in excess of the maximum amount that may be lawfully charged under applicable law from time to time in effect, and the provisions of this section shall control over all other provisions of the Loan Documents which may be in conflict or apparent conflict herewith. Bank Parties expressly disavow any intention to charge or collect excessive unearned interest or finance charges in the event the maturity of any Obligation is accelerated. If (a) the maturity of any Obligation is accelerated for any reason, (b) any Obligation is prepaid and as a result any amounts held to constitute interest are determined to be in excess of the legal maximum, or (c) any Bank Party or any other holder of any or all of the Obligations shall otherwise collect moneys which are determined to constitute interest which would otherwise increase the interest on any or all of the Obligations to an amount in excess of that permitted to be charged by applicable law then in effect, then all sums determined to constitute interest in excess of such legal limit shall, without penalty, be promptly applied to reduce the then outstanding principal of the related Obligations or, at such Bank Party's or holder's option, promptly returned to Borrower or the other payor thereof upon such determination. In determining whether or not the interest paid or payable, under any specific circumstance, exceeds the maximum amount permitted under applicable law, Bank Parties and Restricted Persons (and any other payors thereof) shall to the greatest extent permitted under applicable law, (i) characterize any non-principal payment as an expense, fee or premium rather than as interest, (ii) exclude voluntary prepayments and the effects thereof, and (iii) amortize, prorate, allocate, and spread the total amount of interest throughout the entire contemplated term of the instruments evidencing the Obligations in accordance with the amounts outstanding from time to time thereunder and the maximum legal rate of interest from time to time in effect under applicable law in order to lawfully charge the maximum amount of interest permitted under applicable law. In the event applicable law provides for an interest ceiling under ss.303 of the Texas Finance Code (the "Texas Finance Code") and Chapter 1D of Title 79, Tex. Rev. Civ. Stats. 1925 ("Chapter 1D") as amended, respectively, for any day, the ceiling shall be the "indicated rate ceiling" or "weekly ceiling" as defined in the Texas Finance Code and Chapter 1D, provided that if any applicable law permits greater interest, the law permitting the greatest interest shall apply. As used in this section the term "applicable law" means the Laws of the State of Texas or the Laws of the United States of America,

whichever Laws allow the greater interest, as such Laws now exist or may be changed or amended or come into effect in the future.

Section 10.9. Termination; Limited Survival. In its sole and absolute discretion Borrower may at any time that no Obligations are owing elect in a written notice delivered to Agent to terminate this Agreement. Upon receipt by Agent of such a notice, if no Obligations are then owing this Agreement and all other Loan Documents shall thereupon be terminated and the parties thereto released from all prospective obligations thereunder. Notwithstanding the foregoing or anything herein to the contrary, any waivers or admissions made by any Restricted Person in any Loan Document, any Obligations under Sections 3.2 through 3.6, and any obligations which any Person may have to indemnify or compensate any Bank Party shall survive any termination of this Agreement or any other Loan Document. At the request and expense of Borrower, Agent shall prepare and execute all necessary instruments to reflect and effect such termination of the Loan Documents. Agent is hereby authorized to execute all such instruments on behalf of all Lenders, without the joinder of or further action by any Lender.

Section 10.10. Severability. If any term or provision of any Loan Document shall be determined to be illegal or unenforceable all other terms and provisions of the Loan Documents shall nevertheless remain effective and shall be enforced to the fullest extent permitted by applicable Law.

Section 10.11. Counterparts. This Agreement may be separately executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to constitute one and the same Agreement.

Section 10.12. Waiver of Jury Trial, Punitive Damages, etc. BORROWER AND EACH BANK PARTY HEREBY KNOWINGLY, VOLUNTARILY, INTENTIONALLY, AND IRREVOCABLY (A) WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR DIRECTLY OR INDIRECTLY AT ANY TIME ARISING OUT OF, UNDER OR IN CONNECTION WITH THE LOAN DOCUMENTS OR ANY TRANSACTION CONTEMPLATED THEREBY OR ASSOCIATED THEREWITH, BEFORE OR AFTER MATURITY; (B) WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY SUCH LITIGATION ANY "SPECIAL DAMAGES", AS DEFINED BELOW, (C) CERTIFIES THAT NO PARTY HERETO NOR ANY REPRESENTATIVE OR AGENT OR COUNSEL FOR ANY PARTY HERETO HAS REPRESENTED, EXPRESSLY OR OTHERWISE, OR IMPLIED THAT SUCH PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS, AND (D) ACKNOWLEDGES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS CONTAINED IN THIS SECTION. AS USED IN THIS SECTION, "SPECIAL DAMAGES" INCLUDES ALL SPECIAL, CONSEQUENTIAL, EXEMPLARY, OR PUNITIVE DAMAGES (REGARDLESS OF HOW NAMED), BUT DOES NOT INCLUDE ANY PAYMENTS OR FUNDS WHICH ANY PARTY HERETO HAS EXPRESSLY PROMISED TO PAY OR DELIVER TO ANY OTHER PARTY HERETO.

IN WITNESS WHEREOF, this Agreement is executed as of the date first written above.

CHESAPEAKE ACQUISITION CORPORATION
BORROWER

By: /s/ MARTHA BURGER

Martha Burger
Treasurer

CHESAPEAKE MID-CONTINENT CORP.
BORROWER

By: /s/ MARTHA BURGER

Martha Burger
Treasurer

CHESAPEAKE MERGER CORP.
INITIAL GUARANTOR

By: /s/ MARTHA BURGER

Martha Burger
Treasurer

CHESAPEAKE ACQUISITION CORP.
INITIAL GUARANTOR

By: /s/ MARTHA BURGER

Martha Burger
Treasurer

CHESAPEAKE COLUMBIA CORP.
INITIAL GUARANTOR

By: /s/ MARTHA BURGER

Martha Burger
Treasurer

MID-CONTINENT GAS PIPELINE COMPANY
INITIAL GUARANTOR
By: Chesapeake Mid-Continent Corp.,
Managing General Partner

By: /s/ MARTHA BURGER

Martha Burger
Treasurer

ANSON GAS MARKETING
INITIAL GUARANTOR
By: Chesapeake Mid-Continent Corp.,
Managing General Partner

By: /s/ MARTHA BURGER

Martha Burger
Treasurer

Address for Borrowers and Initial Guarantors:

6100 North Western
Oklahoma City, Oklahoma
Attention: Treasurer

Telephone: (405) 848-8000
Telecopy: (405) 879-9587

With copy to:

Self, Giddens & Lees, Inc.
2725 Oklahoma Tower
210 Park Avenue
Oklahoma City, Oklahoma 73102
Attn: C. Ray Lees

Telephone: (405) 232-3001
Telecopy: (405) 232-5553

UNION BANK OF CALIFORNIA, N.A.
Agent, LC Issuer and Lender

By: /s/ CARL STUTZMAN

Name: Carl Stutzman
Title: Vice President

By: /s/ TONY R. WEBER

Name: Tony R. Weber
Title: Sr. Vice President

Address:
500 North Akard
4200 Lincoln Plaza
Dallas, Texas 75201
Attention: Randall L. Osterberg

Telephone: (214) 922-4200
Telecopy: (214) 922-4209

DEN NORSKE BANK ASA
Co-Agent and Lender

By: /s/ CHARLES E. HALL, SR.

Name: Charles E. Hall, Sr.
Title: Vice President

By: /s/ JAY MORTEN KREUTZ

Name: Jay Morten Kreutz
Title: Vice President

Address:
Three Allen Center
333 Clay Street, Suite 4890
Houston, Texas 77002
Attention: Helene Vales

Telephone: (713) 844-9255
Telecopy: (713) 757-1167

BANK ONE, TEXAS, N.A.
Co-Agent and Lender

By: /s/ W. MARK CRANMER

Name: W. Mark Cranmer
Title: Vice President

Address:
1717 Main Street
Dallas, Texas 75063
Attention: Wm. Mark Cranmer

Telephone: (214) 290-2212
Telecopy: (214) 290-2332

THE FIRST NATIONAL BANK OF CHICAGO
Co-Agent and Lender

By: /s/ DIXON P. SCHULTZ

Name: Dixon P. Schultz
Title: Vice President

By:

Name:
Title:

Address:
One First National Plaza
0634, 1FNP, 10
Chicago, Illinois 60670
Attention: Jamilla Pointer

Telephone: (312) 732-8875
Telecopy: (312) 732-4810

with copy to:

1100 Louisiana
Suite 3200
Houston, Texas 77002
Attention: Ron Dierker

Telephone: (713) 654-7341
Telecopy: (713) 654-7370

BANK OF SCOTLAND, Lender

By: /s/ ANNIE CHIN TAT

Name: Annie Chin Tat
Title: Vice President

Address:
565 Fifth Avenue
New York, New York 10017
Attention: Ms. Annie Chin Tat

Telephone: (212) 450-0800
Telecopy: (212) 557-9460

SOCIETE GENERALE SOUTHWEST AGENCY,
Lender

By: /s/ LOUIS P. LAVILLE, III

    Name: Louis P. Laville, III
    Title: Vice President

Address:
2001 Ross Ave., Suite 4800
Dallas, Texas 75201
Attention: Parker Laville

Telephone: (214) 979-2762
Telecopy: (214) 979-1104

THE BANK OF NOVA SCOTIA, Lender

By: /s/ M. D. SMITH

Name: M. D. Smith
Title: Agent Operations

Address:
600 Peachtree St., N.E.
Atlanta, Georgia 30308
Attention:

Telephone:
Telecopy:

EXHIBIT 21

SUBSIDIARIES OF CHESAPEAKE ENERGY CORPORATION
(an Oklahoma corporation)

Corporations	State of Organization
AmGas Corporation	Kansas
Chesapeake Acquisition Corporation	Oklahoma
Chesapeake Canada Corporation	Alberta, Canada
Chesapeake Columbia Corp.	Oklahoma
Chesapeake Energy Louisiana Corporation	Oklahoma
Chesapeake Energy Marketing, Inc.	Oklahoma
Chesapeake Merger Corp.	Oklahoma
Chesapeake Mid-Continent Corp.	Oklahoma
Chesapeake Operating, Inc.	Oklahoma
HEC Trading Company	Texas
Hugoton Energy Corporation	Kansas
Hugoton Exploration Corporation	Kansas
Tiffany Gathering, Inc.	Delaware
Partnerships	
AnSon Gas Marketing	Oklahoma
Chesapeake Exploration Limited Partnership	Oklahoma
Chesapeake Louisiana, L. P.	Oklahoma
Mid-Continent Gas Pipeline Co.	Oklahoma

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Chesapeake Energy Corporation on Form S-8 (File Nos. 33-84256, 33-84258, 33-89282, 33-88196, 333-27525, 333-07255, 333-46129 and 333-48585), Form S-3 (File Nos. 333-04027 and 333-12533) and Form S-4 (File No. 333-48735) of our report dated March 20, 1998, on our audits of the consolidated financial statements of Chesapeake Energy Corporation as of December 31, 1997 and for the six month period then ended, and as of June 30, 1997 and 1996 and for the years then ended, which report is included in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.

Oklahoma City, Oklahoma
March 31, 1998

EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Chesapeake Energy Corporation on Form S-8 (File Nos. 33-84256, 33-84258, 33-89282, 33-88196, 333-27525, 333-07255, 333-46129 and 333-48585), Form S-3 (File Nos. 333-04027 and 333-12533) and Form S-4 (File No. 333-48735) of our report dated September 20, 1995, except for the fourth paragraph of Note 9 which is as of October 9, 1997, and except for the earnings per share information in Note 1, which is as of March 24, 1998, on our audit of the consolidated financial statements of Chesapeake Energy Corporation for the year ended June 30, 1995, which report is included in this Annual Report on Form 10-K.

PRICE WATERHOUSE LLP

Houston, Texas
March 31, 1998

EXHIBIT 23.3

CONSENT OF WILLIAMSON PETROLEUM CONSULTANTS, INC.

As independent oil and gas consultants, Williamson Petroleum Consultants, Inc. hereby consents to (a) the use of our reserve report entitled "Evaluation of Oil and Gas Reserves to the Interests of Chesapeake Energy Corporation in Certain Properties in Louisiana and Texas, Effective December 31, 1997, for Disclosure to the Securities and Exchange Commission, Williamson Project 7.8569" dated March 12, 1998 and all references to our firm included in or made a part of the Chesapeake Energy Corporation Annual Report on Form 10-K to be filed with the Securities and Exchange Commission on or about March 31, 1998 and (b) to the incorporation by reference of this Form 10-K for the year ending December 31, 1997 in the Registration Statements on Form S-8 (Nos. 33-84256, 33-84258, 33-88196, 333-07255, 33-89282, 333-27525, 333-46129 and 333-48585), Form S-3 (Nos. 333-04027 and 333-12533) and on Form S-4 (No. 333-48735).

/s/ WILLIAMSON PETROLEUM CONSULTANTS, INC.

WILLIAMSON PETROLEUM CONSULTANTS, INC.

Houston, Texas
March 31, 1998

EXHIBIT 23.4

CONSENT OF NETHERLAND, SEWELL & ASSOCIATES, INC.

As independent oil and gas consultants, Netherland, Sewell & Associates, Inc. hereby consent to (a) the use of our reserve report dated December 31, 1997 and all references to our firm included in or made a part of the Chesapeake Energy Corporation Annual Report on Form 10-K to be filed with the Securities and Exchange Commission on or about March 31, 1998 and (b) to the incorporation by reference of this Form 10-K for the year ending December 31, 1997 in the Registration Statements on Form S-8 (Nos. 33-84256, 33-84258, 33-88196, 333-07255, 33-89282, 333-27525, 333-46129 and 333-48585), on Form S-3 (Nos. 333-04027 and 333-12533) and on Form S-4 (No. 333-48735).

NETHERLAND, SEWELL & ASSOCIATES, INC.

Dallas, Texas
March 31, 1998

EXHIBIT 23.5

CONSENT OF PORTER ENGINEERING ASSOCIATES

As independent oil and gas consultants, Porter Engineering Associates hereby consents to (a) the use of our reserve report dated December 31, 1997 and all references to our firm included in or made a part of the Chesapeake Energy Corporation Annual Report on Form 10-K to be filed with the Securities and Exchange Commission on or about March 31, 1998 and (b) to the incorporation by reference of this Form 10-K for the year ending December 31, 1997 in the Registration Statements on Form S-8 (Nos. 33-84256, 33-84258, 33-88196, 333-07255, 33-89282, 333-27525, 333-46129 and 333-48585), on Form S-3 (Nos. 333-04027 and 333-12533) and on Form S-4 (No. 333-48735).

PORTER ENGINEERING ASSOCIATES

Joe H. Porter, PE

Oklahoma City, Oklahoma
March 31, 1998

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM (A) Balance sheet as of December 31, 1997 and Statement of income for six months ended December 31,1997.

1,000
U.S. DOLLARS

6-MOS	
DEC-31-1997	
JUL-01-1997	
DEC-31-1997	
1	
123,860	
12,570	
74,865	
691	
5,493	
217,721	
1,288,151	
608,964	
952,784	
153,480	
508,992	
0	
0	
743	
279,463	
952,784	
153,898	
232,864	
246,990	
264,438	
0	
40	
17,448	
(31,574)	
0	
(31,574)	
0	
0	
0	
(31,574)	
(0.45)	
(0.45)	