

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

FOR THE FISCAL YEAR ENDED JUNE 30, 1996

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

COMMISSION FILE NO. 1-13726

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

73-1395733
(I.R.S. Employer
Identification No.)

6100 NORTH WESTERN AVENUE
OKLAHOMA CITY, OKLAHOMA
(Address of principal executive offices)

73118
(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 \$.10	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 amendments to
this Form 10-K. / /

The aggregate market value of Common Stock held by non-affiliates on August
30, 1996 was \$904,362,133. At such date, there were 16,825,342 shares of Common
Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

PROXY STATEMENT FOR 1996 ANNUAL MEETING
OF SHAREHOLDERS -- PART III

PART I

ITEM 1. BUSINESS

OVERVIEW

Chesapeake Energy Corporation ("Chesapeake" or the "Company") is an independent energy company which utilizes advanced drilling and completion technologies to explore for and produce oil and natural gas. The Company ranks among the five most active drillers of new wells in the United States.

From inception in 1989 through June 30, 1996, Chesapeake drilled a total of 562 gross (186 net) wells, of which 529 gross (175 net) wells were commercially productive. As a result of its successful drilling efforts, the Company has experienced significant growth in its proved reserves, production and revenue. From its first full fiscal year of operation ended June 30, 1990 to the fiscal year ended June 30, 1996, the Company's estimated proved reserves increased to 425 Bcfe from 11 Bcfe, annual production increased to 60.2 Bcfe from 0.2 Bcfe, total revenue increased to \$149.4 million from \$0.6 million, and total assets increased to \$572 million from \$8 million.

At June 30, 1996, the Company's estimated proved reserves consisted of 12.3 MMBbl of oil and 351.2 Bcf of gas, a total of 425 Bcfe. During fiscal 1996, the Company's proved reserves increased from 242 Bcfe to 425 Bcfe, an increase of 183 Bcfe (76%), or a four-fold replacement of its 60.2 Bcfe of production. At June 30, 1996, the present value of estimated future net revenue attributable to Chesapeake's estimated proved reserves before income taxes (utilizing a 10% discount rate) was \$547 million, based on average prices at fiscal year end 1996 of \$20.90 per Bbl and \$2.41 per Mcf.

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.

BUSINESS STRATEGY

Since its inception, Chesapeake's business strategy has been growth through the drillbit. Using this strategy, the Company has expanded its reserves and production through the acquisition and subsequent development of large blocks of acreage. The Company has focused in areas where reservoirs such as fractured carbonates offer (i) low geological risk, (ii) large reserve potential, and (iii) the opportunity to earn attractive economic returns through the application of advanced drilling and completion technologies.

The Company historically concentrated its undeveloped leasehold acquisitions and associated drilling in the Giddings Field of southern Texas and the Golden Trend Field of southern Oklahoma. Since early fiscal 1995, Chesapeake has extensively developed new project areas that are either extensions of the Company's historical focus in the Giddings and Golden Trend Fields or are new areas in which the Company's geological and engineering expertise provides the Company with competitive advantages. These additional project areas include the Knox Field in southcentral Oklahoma, the Sholem Alechem Field in southern Oklahoma, the Louisiana Austin Chalk Trend (the "Louisiana Trend"), the Arkoma Basin in southeastern Oklahoma, the Lovington area in eastern New Mexico, and the Williston Basin in eastern Montana and western North Dakota. Within the Louisiana Trend, the Company has acquired over 1,000,000 acres, and has identified six project areas: South Brookeland, Leesville, Masters Creek, St. Landry, Baton Rouge and Livingston. An important element in the Company's business strategy is to retain a higher level of ownership in these new project areas than it historically retained in the Giddings and Golden Trend Fields.

The Company's operating areas are typically characterized by fractured carbonate reservoirs that are known to contain oil and gas and generally cover a large geographic region. In the past, development of these reservoirs has been limited by both economic and technological factors. Recent advances in drilling and completion technologies, and the resulting lower exploration costs, provide the Company with the opportunity to develop large new reserves of oil and natural gas and to generate attractive economic returns.

COMPETITIVE ADVANTAGES

Management believes five competitive advantages are responsible for Chesapeake's rapid growth and distinguish the Company from other independent energy companies.

Growth Through the Drillbit. Employing its strategy of growth through the drillbit, the Company has substantially increased its reserves and production. By focusing drilling efforts on deep fractured carbonate reservoirs, management believes the Company can continue to increase its reserves and production and generate attractive returns by integrating the Company's advanced drilling and completion expertise with its large inventory of undeveloped leasehold.

Dominant Leasehold Positions. Through aggressive acreage acquisition in its existing and new project areas, the Company seeks to establish a dominant leasehold position in each of its project areas. Such a dominant position allows the Company to maximize its economic returns while limiting drilling opportunities available to its competitors. Consistent with this strategy, the Company has assembled a significant leasehold acreage inventory which included approximately 900 proved and unproved drilling locations at June 30, 1996.

OPERATING AREA	NUMBER OF GROSS WELLS DRILLED(A)	UNDEVELOPED GROSS ACREAGE(B)	UNDEVELOPED LOCATIONS(A)	
			PROVED	UNEVALUATED
Giddings Field.....	178	150	69	60
Southern Oklahoma.....	196	100	85	150
Louisiana Trend.....	6	1,000	17	425
Williston Basin.....	--	550	--	75
Other.....	182	250	11	25
	---	---	---	---
Total.....	562	2,050	182	735
	===	=====	===	

(a) Includes wells drilling

(b) Acreage in thousands

Technological Leadership. The Company has developed significant expertise in the rapidly evolving technologies of horizontal drilling, 3-D seismic evaluation, and deep fracture stimulation. The Company believes its expertise in employing these technologies is the most important factor in its growth during the past several years. In particular, the Company has developed considerable horizontal drilling and completion expertise, especially in wells which target deep fractured carbonates. Over the last several years, deeper, more complex horizontal wells have become technically and economically feasible and the cost of drilling these wells has decreased. As a result, the Company believes there has been a substantial increase in the number of areas which are economically attractive for horizontal drilling.

Superior Operating Margin. Management believes the Company's operating cost structure is among the lowest of all publicly traded independent energy producers. For fiscal 1996 the Company's per unit operating costs (consisting of general and administrative expense, lease operating expense, production taxes, and depreciation, depletion and amortization of oil and gas properties) were \$1.07 per Mcfe produced resulting in an operating margin of \$0.77 per Mcfe. Management believes the key to creating value in the independent energy industry is the ability to generate high levels of cash flow that can be successfully reinvested in a technologically-driven exploration program.

Management's Substantial Equity Ownership. At June 30, 1996, the Company's management and directors beneficially owned (including outstanding vested options of management) an aggregate of approximately 44% of the Company's outstanding shares of Common Stock. Management believes this substantial equity ownership provides a strong alignment of management's and investors' interests and creates an entrepreneurial culture within the Company.

PRIMARY OPERATING AREAS

The Company's activities are concentrated in three primary operating areas: (i) the Navasota River and Independence areas of the downdip Giddings Field in southern Texas, (ii) the Knox, Sholem Alechem, and Golden Trend Fields of southern Oklahoma, and (iii) the South Brookeland, Leesville, Masters Creek, St. Landry, Baton Rouge and Livingston areas of the Louisiana Trend.

The following table sets forth the Company's proved reserves in its primary operating areas (net of interests of other working and royalty interest owners and others entitled to share in production), estimated capital expenditures and the number of potential drilling locations required to develop the Company's proved undeveloped reserves at June 30, 1996:

AREAS	OIL (MMBL)	GAS (MMCF)	GAS EQUIVALENT (MMCFE)	PERCENT OF PROVED RESERVES	ESTIMATED CAPITAL EXPENDITURES REQUIRED TO DEVELOP (\$ IN 000'S)	NUMBER OF PROVED UNDEVELOPED LOCATIONS
Giddings.....	2,147	156,557	169,439	39.9%	\$ 38,163	69
Southern Oklahoma.....	3,657	157,460	179,402	42.2	60,746	85
Louisiana Trend.....	5,969	23,182	58,996	13.9	33,749	17
Williston Basin.....	--	--	--	--	--	--
Other Areas.....	485	14,025	16,938	4.0	4,410	11
Total.....	12,258	351,224	424,775	100.0%	\$137,068	182

GIDDINGS FIELD. Chesapeake's second largest concentration of proved reserves and its highest concentration of present value is located in the Giddings Field, which is currently one of the most active oil and natural gas fields in the U.S. The primary producing formation in Giddings is the Austin Chalk formation, a fractured carbonate reservoir found at depths ranging from 7,000 feet to 17,000 feet along a 15,000 square mile trend in southeastern Texas and central Louisiana. Chesapeake has concentrated its drilling efforts in the gas-prone downdip portion of the Giddings Field, where the Austin Chalk is located at depths below 11,000 feet. The Company believes the downdip Giddings area is one of the largest discoveries of onshore gas in the U.S. in recent years.

The Company believes that its success in the downdip Giddings Field is attributable to four principal factors: (i) limited reservoir drainage from previously drilled vertical wells; (ii) the Company's aggressive leasehold acquisition program, which has permitted the creation of larger spacing units, thus reducing competition for reserves from offsetting wells; (iii) continued technological advances in horizontal drilling, which have significantly lowered development costs, expanded the field's boundaries into deeper areas, and increased per well productivity through the ability to drill within a more precisely defined target zone; and (iv) the geological setting of the downdip Austin Chalk, which is characterized by greater reservoir pressure and more intensive fracturing than in the updip area of the Giddings Field. As a result of these factors, the Company's downdip wells have, on average, produced greater reserves per well while also exhibiting lower decline rates than average wells in other areas of Austin Chalk production.

Navasota River. In February 1994, the Company drilled its first well in the Navasota River leasehold block, located in Brazos and Grimes Counties, Texas. As of June 30, 1996, the Company had drilled and completed 77 Navasota River wells and was drilling seven additional wells. The Company has budgeted \$30 million in fiscal 1997 to drill 28 gross (16 net) wells in the Navasota River area.

Independence. The Company's Independence block is located in Grimes and Washington Counties to the south and southwest (and further downdip) from the Navasota River area. As of June 30, 1996, the Company had drilled 24 Independence wells and was drilling two additional wells. The Company has budgeted \$7 million to drill six gross (3 net) wells in fiscal 1997 in the Independence area.

SOUTHERN OKLAHOMA. Chesapeake's largest concentration of proved reserves is located in southern Oklahoma and is comprised of the Knox, Golden Trend and Sholem Alechem Fields. Based on the

Company's drilling success in late 1993 with its deeper wells (12,000 to 14,000 feet) in the Bradley area of the Golden Trend Field, the Company initiated a deeper drilling project in 1994 in the Knox area. The Company's first two wells in Knox were the first wells in Oklahoma to establish commingled commercial production from the Sycamore, Woodford, Hunton and Viola formations at depths below 15,000 feet. This success led to an aggressive and successful acreage acquisition and drilling program during fiscal 1995 and fiscal 1996.

As of June 30, 1996, Chesapeake had successfully completed 41 of 42 wells drilled in the Knox Field and was drilling six additional wells. The Company's acreage inventory in the Knox area is large enough to support the drilling of approximately 50 proved undeveloped locations and the Company believes this inventory could increase by an additional 200 increased density or step-out wells, subject to applicable spacing requirements. The Company has budgeted \$36 million in fiscal 1997 to drill 19 gross (15 net) wells in the Knox area. During fiscal 1996, Chesapeake doubled its assets in Knox through its acquisition of Amerada Hess Corporation's interests in Chesapeake wells.

The Company's horizontal drilling project in the Sholem Alechem portion of southern Oklahoma's Sho-Vel-Tum Field was initiated on the Company's belief that the application of horizontal drilling technology could result in a significant increase in the recovery of remaining reserves in this field. Since its discovery more than 80 years ago, the Sho-Vel-Tum Field has produced more than one billion barrels of oil and one trillion cubic feet of natural gas. To date the Company has drilled 25 gross (11 net) horizontal wells and has successfully completed all of these wells. The Company has budgeted \$8 million to drill 10 gross (5 net) wells during fiscal 1997. Texaco Exploration and Production, Inc. is the Company's 50% working interest partner in this area.

LOUISIANA AUSTIN CHALK TREND. The Louisiana Trend is the newest of the Company's three primary operating areas and will be the focus of the Company's exploration and development activities in the foreseeable future. In late 1994, Occidental Petroleum Corporation ("Occidental") announced the completion of a single lateral horizontal Austin Chalk discovery well in the Masters Creek area of central Louisiana. Occidental's well was drilled 200 miles east of the Company's activity in the downdip Giddings Field and 60 miles east of the nearest previous commercial multi-well horizontal Austin Chalk production in the Brookeland Field of southeast Texas.

Based on management's belief that the Occidental well confirmed the Company's geological premise that the Austin Chalk would be productive across a large portion of central and southeastern Louisiana, Chesapeake invested approximately \$103 million through June 30, 1996 to acquire approximately 1,000,000 acres of leasehold in the Louisiana Trend. This large acreage position provides the Company with the opportunity to drill up to 300-500 horizontal Austin Chalk wells, assuming spacing units of approximately 2,000 acres and assuming continued drilling success by Chesapeake and others in the Louisiana Trend.

During fiscal 1996, Chesapeake operated five wells (4.9 net) in the Louisiana Trend and participated in the second well drilled by Occidental in this area. Production commenced from Chesapeake's first well, the Laddie James #7-1, on June 30, 1996, and the other wells were drilling at that date. Chesapeake has budgeted \$125 million to drill 25 gross and net wells in the Louisiana Trend during fiscal 1997, including several wells that will test the deeper Tuscaloosa formation.

OTHER OPERATING AREAS

WILLISTON BASIN. During fiscal 1996, Chesapeake began acquiring leasehold in the Williston Basin, located in eastern Montana and western North Dakota, and as of June 30, 1996 owned approximately 550,000 gross acres. The primary focus of Chesapeake's exploration efforts in this area is the horizontally-drilled, oil-prone Red River "B" formation in Bowman and Slope Counties, North Dakota and in Fallon County, Montana. Approximately 75 Red River "B" horizontal wells have been drilled to date by other companies in this area. The Company has budgeted \$6 million to drill six gross and net wells during fiscal 1997.

PERMIAN BASIN. In late 1994, the Company initiated 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.

The Company has identified approximately 25 prospects in the Lovington area, where the Company is targeting oil reserves at depths from 11,000 to 13,000 feet. The Company drilled its first well during fiscal 1996 and has budgeted \$4 million to drill six gross (5 net) wells during fiscal 1997.

ARKOMA BASIN. The Arkoma Basin is Oklahoma's second largest gas basin. In late 1994, the Company initiated a seismic and leasehold acquisition program in the Jackfork and Deep Spiro areas of the Arkoma Basin of southeastern Oklahoma. The Jackfork and Deep Spiro plays are located in the southern portion of the basin, a deeper and more geologically complex area that has been less heavily explored than the updip northern portion.

The Company believes recent developments in 3-D seismic technology and in drilling and completion technologies have created an excellent opportunity for the Company to establish a significant project area in the Arkoma Basin. The Company is targeting gas reserves at depths from 4,000 to 16,000 feet. As of June 30, 1996, the Company had drilled 14 gross (6 net) Arkoma Basin wells on its acreage position of approximately 125,000 gross acres. The Company has budgeted \$3 million to drill eight gross (4 net) wells during fiscal 1997.

OTHER. The Company maintains significant interests in other acreage, primarily in Fayette, Grimes, and Karnes Counties, Texas, where the Company conducts horizontal drilling operations targeting the Austin Chalk, Buda, Georgetown, and Edwards formations. The Company has budgeted \$6 million to drill six gross (4 net) horizontal wells in these and other areas of Texas during fiscal 1997.

HORIZONTAL DRILLING OPERATIONS

Horizontal drilling involves the drilling of a horizontal borehole within a narrow segment of a single stratigraphic formation. Through June 30, 1996, Chesapeake had drilled 275 horizontal wells in southern Texas, southern Oklahoma and Louisiana.

In general, horizontal drilling permits the operator to intersect a greater number of fractures than in conventional vertical drilling. This can result in both increased initial production rates and greater ultimate recoveries of hydrocarbons on a per well basis. Based on the Company's experience, the typical production profile of a horizontal well reflects relatively higher production in the early life of the well, allowing for more of the drilling costs to be quickly recovered, followed by a significant decline in production and a stabilization of production at lower rates thereafter. The Company believes that horizontal drilling tends to decrease field development costs by reducing the number of wells needed to drain a given reservoir.

The technology enabling the Company to drill profitable horizontal wells in the Giddings Field in southern Texas, the Sholem Alechem Field in southern Oklahoma and recently in the Louisiana Trend has progressed rapidly and has resulted in lower finding costs. Advances in drilling technology such as "measurement-while-drilling" tools, which provide a continuous analysis of the drillbit's location when drilling horizontally, assist the Company's engineers in guiding the drillbit into a more tightly defined target zone, or "sweet spot," in the formation. Additionally, innovations in downhole motor, drillbit, and whipstock technology have doubled the rate of drilling penetration during the past two years and have enabled the Company to drill multiple lateral horizontal wells. The Company's geologists are using "logging-while-drilling" and enhanced seismic technology to more accurately locate the existence of hydrocarbon-bearing fractures within target formations. Further innovations in horizontal drilling tools and techniques continue at a rapid pace and management believes such innovations will enable the Company to expand its drilling success further downdip in the Louisiana Trend and in Giddings and into other horizontal drilling projects elsewhere in the United States.

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.

	YEAR ENDED JUNE 30,					
	1996		1995		1994	
	GROSS	NET	GROSS	NET	GROSS	NET
Development:						
Productive.....	111	49.5	133	42.6	70	15.2
Non-productive.....	4	1.6	5	2.8	4	.1
Total.....	115	51.1	138	45.4	74	15.3
Exploratory:						
Productive.....	29	16.5	11	5.3	17	3.0
Non-productive.....	4	1.4	1	.7	1	.1
Total.....	33	17.9	12	6.0	18	3.1

At June 30, 1996, the Company was drilling 28 gross (16.2 net) exploratory or development wells, of which 24 gross (12.6 net) have been successfully completed and four gross (3.6 net) are still being drilled or tested. The Company was also participating with minority interests in nine non-operated wells being drilled at that date.

WELL DATA

At June 30, 1996, the Company had interests in approximately 474 producing wells, of which 93 (29.9 net) were classified as primarily oil producing wells and 381 (124.0 net) were classified as primarily gas producing wells.

ACREAGE

The following table sets forth as of June 30, 1996 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.

	TOTAL DEVELOPED AND UNDEVELOPED	
	GROSS	NET
Giddings.....	251	170
Southern Oklahoma.....	137	48
Louisiana Trend.....	1,012	900
Williston Basin.....	550	381
Other Areas.....	319	201
Total.....	2,269	1,700
	=====	=====

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 fiscal 1996, the following three customers individually accounted for 10% or more of the Company's total oil and gas sales:

	AMOUNT (\$ IN THOUSANDS)	PERCENT OF OIL AND GAS SALES
Aquila Southwest Pipeline Corporation.....	\$ 41,900	38%
GPM Gas Corporation.....	\$ 28,700	26%
Wickford Energy Marketing, L.C.....	\$ 18,500	17%

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.

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 swap arrangements that establish an index-related price above which the Company pays the hedging partner and below which the Company is paid by the hedging partner, the purchase of index-related puts that provide for a "floor" price to the Company to be paid by the counter-party to the extent the price of the commodity is below the contracted floor, and basis protection swaps. 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.

As of June 30, 1996, the Company had NYMEX-based crude oil swap agreements for 1,000 Bbl per day for July 1, 1996 through August 31, 1996 at an average price of \$17.85 per Bbl. The counter-party has the option exercisable monthly for an additional 1,000 Bbl per day for the period July 1, 1996 through December 31, 1996 to cause a swap if the price exceeds an average \$17.74 per Bbl. The actual settlements for July and August resulted in a \$0.5 million payment to the counter-party. The Company estimates, based on NYMEX prices as of August 30, 1996, that the effect of the September through December hedges would be a \$0.4 million payment to the counter-party.

The Company has purchased Houston Ship Channel put options which guarantee the Company an average floor price of \$2.21/Mmbtu for 20,000 Mmbtu per day for the period of November 1, 1996 through February 28, 1997. The average cost of these puts was \$0.14 per Mmbtu.

As of June 30, 1996, the Company had NYMEX-based natural gas swaps and NYMEX/Houston Ship Channel Basis swaps for the months of July through October 1996. These transactions resulted in payments to the Company's counter-party of approximately \$2 million for the month of July 1996 and \$1.5 million for the month of August 1996. The Company estimates, based on NYMEX prices as of August 30, 1996, that the effect of the September and October hedges would be a \$0.2 million payment to the counter-party.

The Company has only limited involvement with derivative financial instruments, as defined in Statement of Financial Accounting Standards No. 119 ("SFAS 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 counter-parties and to basis risk.

COMPETITION

The oil and gas industry is highly competitive. The Company competes for the acquisition of oil and gas properties with numerous other entities, including major oil companies, other independent oil and gas concerns and individual producers and operators. Many of these competitors have financial, technical and other resources substantially greater than those of the Company.

SEASONAL NATURE OF BUSINESS

Historically the demand for natural gas decreases during the summer months and increases during the winter months. However, pipelines, utilities, local distribution companies and industrial users may more effectively utilize natural gas storage capacity by purchasing some of the winter load in the summer at reduced prices.

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 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 project 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.

Marketing and Transportation

Historically, the transportation and sale for resale of natural gas in interstate commerce have been regulated pursuant to the Natural Gas Act of 1938, the Natural Gas Policy Act of 1978 (the "NGPA"), and the regulations promulgated thereunder by the Federal Energy Regulatory Commission (the "FERC"). Since 1978, maximum selling prices of certain categories of natural gas sold in "first sales," whether sold in interstate or intrastate commerce, have been regulated pursuant to the NGPA. The NGPA established various categories of natural gas and provided for graduated deregulation of price controls of several categories of natural gas and the deregulation of sales of certain categories of natural gas. Most "first sale" price deregulation contemplated under the NGPA has already occurred. Moreover, in July 1989, the Natural Gas Wellhead Decontrol Act was enacted. This Act amended the NGPA to remove both price and non-price controls from natural gas sold in "first sales" as of January 1, 1993.

Several major regulatory changes have been implemented by the FERC from 1985 to the present that affect the economics of natural gas production, transportation and sales. In addition, the FERC continues to promulgate revisions to various aspects of the rules and regulations affecting those segments of the natural gas industry, most notably interstate natural gas transmission companies, which remain subject to the FERC's jurisdiction. These initiatives may also affect the intrastate transportation of gas under certain circumstances. The stated purposes of many of these regulatory changes is to promote competition among the various sectors of the gas industry. The ultimate impact of these complex and overlapping rules and regulations, many of which are repeatedly subjected to judicial challenge and interpretation, 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 regulating the release of materials in the environment or otherwise relating to the protection of the environment 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 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 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 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 is 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 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 an owner of sites on which "hazardous substances" have been released by previous owners or operators. 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 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 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, little investigation of record title is made at the time of acquisition (other than a preliminary review of local records). Drilling title opinions are always 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 \$5 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 \$25 million umbrella policy. The Company and its subsidiaries carry workers' compensation insurance in all states in which they operate. 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 344 full-time employees as of June 30, 1996 of which 68 were involved in the oil and gas service operations of the Company. The sale of the oil and gas service operations as of June 30, 1996 resulted in a transfer of the service employees to the purchaser. No employees are represented by organized labor unions. The Company considers its employee relations to be good.

FACILITIES

The Company owns 11 buildings totaling approximately 74,000 square feet in an office complex in Oklahoma City that comprise its headquarters' offices and also owns a field office in Lindsay, Oklahoma. The Company leases field office space in College Station, Texas and in Lafayette, Louisiana.

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 June 30, 1996 with respect to the Company's estimated net proved reserves, the estimated future net revenue therefrom and the present value thereof at such date, based on estimates prepared by Williamson Petroleum Consultants, Inc. ("Williamson") and the Company's petroleum engineers. The reserves evaluated internally by the Company constituted 0.6% of total proved reserves for fiscal 1996. The 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. For further information concerning the present value of future net revenue from these proved reserves, see Note 10 of Notes to the Company's Consolidated Financial Statements included in Item 8.

ESTIMATED PROVED RESERVES AS OF JUNE 30, 1996	OIL (MMBBL)	GAS (BCF)	TOTAL (BCFE)
Proved developed.....	3.7	144.7	166.6
Proved undeveloped.....	8.6	206.5	258.2
Total proved.....	12.3	351.2	424.8

ESTIMATED FUTURE NET REVENUE AS OF JUNE 30, 1996(A)	PROVED DEVELOPED	PROVED UNDEVELOPED	TOTAL PROVED
	(\$ IN MILLIONS)		
Estimated future net revenue.....	\$ 340.8	\$ 454.8	\$795.6
Present value of future net revenue.....	\$ 242.0	\$ 305.0	\$547.0

(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 June 30, 1996. 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 Williamson report yield average prices of \$20.90 per barrel of oil and \$2.41 per Mcf of gas.

The future net revenue attributable to the Company's estimated proved undeveloped reserves of \$454.8 million at June 30, 1996, and the \$305 million present value thereof, have been calculated assuming that the Company will expend approximately \$135.6 million to develop these reserves through June 30, 2000. 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 necessarily reflect market prices for oil and gas production sold subsequent to June 30, 1996. 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 producer. 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 this is 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.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in ordinary routine litigation incidental to its business. There are presently no material pending legal proceedings to which the Company is a party or of which any of its property is subject.

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

No matters were submitted to a vote of the Company's security holders during the fourth quarter of the Company's fiscal year ended June 30, 1996.

PART II

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

PRICE RANGE OF COMMON STOCK

The Common Stock was quoted through the Nasdaq National Market under the symbol "CSPK" from February 4, 1993 through April 27, 1995. On April 28, 1995 the Common Stock began trading 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 a 2-for-1 stock split on December 16, 1994 and 3-for-2 stock splits on December 15, 1995 and June 28, 1996) of the Common Stock as reported by the Nasdaq National Market through April 27, 1995, and the New York Stock Exchange thereafter:

	COMMON STOCK	
	HIGH	LOW
Fiscal year ended June 30, 1995:		
First Quarter.....	\$ 4.89	\$ 1.72
Second Quarter.....	7.67	4.28
Third Quarter.....	9.67	4.44
Fourth Quarter.....	13.39	9.33
Fiscal year ended June 30, 1996:		
First Quarter.....	14.56	9.06
Second Quarter.....	22.17	12.39
Third Quarter.....	33.00	21.33
Fourth Quarter.....	60.75	31.00

At August 31, 1996 there were 167 holders of record of Common Stock and approximately 7,815 beneficial owners.

DIVIDENDS

The Company has never paid cash dividends on its Common Stock. The Company's policy is to retain its earnings to support the growth of the Company's business. The Board of Directors of the Company does not intend to pay cash dividends on the Company's Common Stock in the foreseeable future. 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 restrictions imposed by the Company's present or future credit facilities.

The Indentures governing the Company's outstanding Senior Notes and its revolving bank credit facility contain certain restrictions on the Company's ability to declare and pay dividends. The revolving credit facility prohibits the Company from declaring or paying any dividends in respect of its Common Stock unless the lender otherwise consents in writing. 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.

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, 1996. 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.

	YEAR ENDED JUNE 30,				
	1996	1995	1994	1993	1992

	(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENT OF OPERATIONS DATA:					
Revenues:					
Oil and gas sales.....	\$110,849	\$ 56,983	\$ 22,404	\$11,602	\$10,520
Gas marketing sales.....	28,428	--	--	--	--
Oil and gas service operations.....	6,314	8,836	6,439	5,526	7,656
Interest and other.....	3,831	1,524	981	880	542
	-----	-----	-----	-----	-----
Total revenues.....	149,422	67,343	29,824	18,008	18,718
Costs and expenses:					
Production expenses and taxes.....	8,303	4,256	3,647	2,890	2,103
Gas marketing expenses.....	27,452	--	--	--	--
Oil and gas service operations.....	4,895	7,747	5,199	3,653	4,113
Oil and gas depreciation, depletion and amortization.....	50,899	25,410	8,141	4,184	2,910
Depreciation and amortization of other assets.....	3,157	1,765	1,871	557	974
General and administrative.....	4,828	3,578	3,135	3,620	3,314
Provision for legal and other settlements.....	--	--	--	1,286	--
Interest and other.....	13,679	6,627	2,676	2,282	2,577
	-----	-----	-----	-----	-----
Total costs and expenses.....	113,213	49,383	24,669	18,472	15,991
Income (loss) before income taxes.....	36,209	17,960	5,155	(464)	2,727
Income tax expense (benefit).....	12,854	6,299	1,250	(99)	1,337
	-----	-----	-----	-----	-----
Net income (loss).....	\$ 23,355	\$ 11,661	\$ 3,905	\$ (365)	\$ 1,390
	=====	=====	=====	=====	=====
Net income (loss) per common share.....	\$.80	\$.42	\$.16	\$ (.04)	\$.10
	=====	=====	=====	=====	=====
CASH FLOW DATA:					
Cash provided by (used in) operating activities.....	\$120,972	\$ 54,731	\$ 19,423	\$(1,499)	\$11,550
Cash used in investing activities.....	344,389	112,703	29,211	15,142	26,987
Cash provided by financing activities...	219,520	97,282	21,162	20,802	12,779
BALANCE SHEET DATA (AT END OF PERIOD):					
Total assets.....	\$572,335	\$276,693	\$125,690	\$78,707	\$61,095
Long-term debt, net of current maturities.....	268,431	145,754	47,878	14,051	22,154
Stockholders' equity.....	177,767	44,975	31,260	31,432	132

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

OVERVIEW

Chesapeake's revenue, net income, operating cash flow, and production reached record levels in 1996. Increased cash flow from operations, in combination with the issuance of \$120 million of 9.125% Senior Notes and the sale of 3 million shares of common stock in April 1996, allowed the Company to fund its net capital expenditures of \$344 million. The Company also repaid all amounts outstanding under its \$125 million Revolving Credit Facility and currently has \$75 million of available bank credit committed under this expanded credit facility.

During fiscal 1996, the Company participated in 148 gross wells (69.0 net), of which 111 were operated by the Company. The Company's proved reserves increased by 183 Bcfe to 425 Bcfe as a result of this drilling and the purchase of proved reserves from Amerada Hess Corporation compared to 60.2 Bcfe of production, resulting in reserve replacement in excess of 300% compared to production.

The Company's business strategy has continued to emphasize the acquisition of large prospective leasehold positions to provide a multi-year inventory of drilling locations. By June 1996, the Company had increased its acreage position to approximately 200,000 gross acres of developed leasehold and approximately 2 million gross acres of undeveloped leasehold. During 1996, the Company continued the expansion of its exploration focus in the Louisiana Austin Chalk Trend and began a significant acreage acquisition program in the Williston Basin. The Company also conducted or participated in 3-D seismic programs in the Lovington area, the Giddings Field, the Knox Field and in the Williston and Arkoma Basin areas to evaluate the Company's acreage inventory.

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

	YEAR ENDED JUNE 30,		
	1996	1995	1994
Net Production Data:			
Oil (MBbl).....	1,413	1,139	537
Gas (MMcf).....	51,710	25,114	6,927
Gas equivalent (MMcfe).....	60,190	31,947	10,152
Oil and Gas Sales (\$ in 000's):			
Oil.....	\$ 25,224	\$19,784	\$ 8,111
Gas.....	85,625	37,199	14,293
Total oil and gas sales.....	\$110,849	\$56,983	\$22,404
Average Sales Price:			
Oil (\$ per Bbl).....	\$ 17.85	\$ 17.36	\$ 15.09
Gas (\$ per Mcf).....	\$ 1.66	\$ 1.48	\$ 2.06
Gas equivalent (\$ per Mcfe).....	\$ 1.84	\$ 1.78	\$ 2.21
Oil and Gas Costs (\$ per Mcfe):			
Production expenses and taxes.....	\$.14	\$.13	\$.36
General and administrative.....	\$.08	\$.11	\$.31
Depreciation, depletion and amortization.....	\$.85	\$.80	\$.80
Net Wells Drilled:			
Horizontal wells.....	42.0	28.5	11.1
Vertical wells.....	27.0	23.0	7.9
Net Wells at End of Period.....	186.2	91.2	57.9

RESULTS OF OPERATIONS

General. For the fiscal year ended June 30, 1996, the Company realized net income of \$23.4 million, or \$0.80 per common share, on total revenues of \$149.4 million. This compares to net income of \$11.7 million, or \$0.42 per common share, on total revenues of \$67.3 million in 1995, and net income of \$3.9 million, or \$0.16

per common share, on total revenues of \$29.8 million in fiscal 1994. The significantly higher earnings in 1996 as compared to 1995 and 1994 were largely the result of higher production and prices per Mcfe, partially offset by higher oil and gas depreciation, depletion and amortization and higher interest costs.

Oil and Gas Sales. During fiscal 1996, oil and gas sales increased 94% to \$110.8 million versus \$57.0 million for fiscal 1995 and 395% from the fiscal 1994 amount of \$22.4 million. The increase in oil and gas sales resulted primarily from strong growth in production volumes. For fiscal 1996, the Company produced 60.2 Bcfe, at a weighted average price of \$1.84 per Mcfe, compared to 31.9 Bcfe produced in fiscal 1995 at a weighted average price of \$1.78 per Mcfe, and 10.2 Bcfe produced in fiscal 1994 at a weighted average price of \$2.21 per Mcfe. This represents production growth of 89% for fiscal 1996 compared to 1995 and 490% compared to 1994.

These increases in production volumes reflect the Company's successful exploration and development program. The following table shows the Company's production by major field area for fiscal 1996 and fiscal 1995:

		FOR THE YEAR ENDED JUNE 30,			
		1996		1995	
		PRODUCTION (MMCFE)	PERCENT	PRODUCTION (MMCFE)	PERCENT
Giddings	-- Navasota River.....	28,360	47%	16,881	53%
	-- Independence.....	11,601	19%	3,784	12%
	-- Other Giddings.....	7,205	12%	5,976	19%
Oklahoma	-- Knox.....	3,901	6%	1,255	4%
	-- Golden Trend.....	2,758	5%	1,880	6%
	-- Sholem Alechem.....	2,010	3%	749	2%
All Other Fields.....		4,355	8%	1,422	4%
	Total Production.....	60,190	100%	31,947	100%

The Company's gas production represented approximately 86% of the Company's total production volume on an equivalent basis in fiscal 1996. This is compared to 79% in fiscal 1995 and 68% in 1994. This is a result of the Company's drilling in deeper, more gas-prone areas of the Giddings and Knox Fields.

For fiscal 1996, the Company realized an average price per barrel of oil of \$17.85, compared to \$17.36 in fiscal 1995 and \$15.09 in fiscal 1994. 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. The Company realized \$0.9 million less in oil revenues than it would have received from unhedged market prices in fiscal 1996.

Gas price realizations increased from fiscal 1995 to 1996 by approximately 12%, despite lower gas revenue realized by the Company during the fourth fiscal quarter of 1996 as a result of the hedging activity. As a result of hedging, the Company had gas revenues during that period that were approximately \$5.1 million less than unhedged market prices. Although gas prices generally increased during 1996, the weighted average realization per Mcf in 1996 was still 19% less than 1994. The lower prices realized in 1995 were the result of lower natural gas prices, and the fact that an increased portion of the Company's gas production was from areas that contain leaner gas that is either not processed for liquids or contains less energy value (Btu's) per Mcf. The Company anticipates gas production in Louisiana will receive premium prices at least equivalent to Henry Hub indexes due to the high Btu content and favorable market location of the production.

Gas Marketing Sales. In December 1995, the Company entered into the gas marketing business by acquiring all of the outstanding stock of an Oklahoma City-based natural gas marketing company for total consideration of \$725,000. This subsidiary provides natural gas marketing services including commodity price structuring, contract administration and nomination services for the Company, its partners and other natural gas producers in the geographical areas in which the Company is active.

As a result of this purchase, the Company realized \$28.4 million in gas marketing sales for third parties in fiscal 1996, with corresponding costs of gas marketing sales of \$27.5, resulting in a gross margin of \$0.9 million. There were no gas marketing activities in 1995 or 1994.

Oil and Gas Service Operations. Revenues from oil and gas service operations were \$6.3 million in fiscal 1996, down 28% from \$8.8 million in fiscal 1995, and down 2% from \$6.4 million in 1994. The related costs and expenses of these operations were \$4.9 million, \$7.7 million and \$5.2 million for the three years ended June 30, 1996, 1995 and 1994, respectively. The gross profit margin of 22% in fiscal 1996 was up from the 12% margin in fiscal 1995, and up slightly from the 19% gross margin in fiscal 1994. 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.

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 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. 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 will be accounted for using the equity method.

Interest and Other. Interest and other income for fiscal 1996 was \$3.8 million which compares to \$1.5 million in 1995 and \$1 million in 1994. 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 and 1994, 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 and production and excise taxes, increased to \$8.3 million in fiscal 1996, as compared to \$4.3 million in fiscal 1995, and \$3.6 million in fiscal 1994. These increases on a year-to-year basis were primarily the result of increased production. On an Mcfe production unit basis, production expenses and taxes increased to \$0.14 per Mcfe as compared to \$0.13 per Mcfe in fiscal 1995 and \$0.36 per Mcfe in 1994. Severance tax exemptions for production were available in fiscal 1996 and 1995, and certain of the exemptions in Giddings are applicable for production through 2001 for wells spud prior to September 1, 1996 and on a more limited basis for qualifying wells spud thereafter. The Company expects that operating costs in fiscal 1997 will increase based on the Company's expansion of drilling efforts into the Louisiana Trend and the Williston Basin, because both are oil prone areas which generally have higher operating costs than gas prone areas and because limited severance tax exemptions will be applicable in these areas as compared to existing exemptions in Giddings.

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization ("DD&A") of oil and gas properties for fiscal 1996 was \$50.9 million, \$25.5 million higher than fiscal 1995's expense of \$25.4 million, and \$42.8 million higher than fiscal 1994's expense of \$8.1 million. 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 \$0.85 in fiscal 1996 compared to \$0.80 in fiscal 1995 and 1994. The Company's DD&A rate in the future will be a function of the results of future acquisition, exploration, development and production results, but the Company's rate could trend upward in 1997 based on projected higher finding costs for the Louisiana Trend.

Depreciation and Amortization of Other Assets. Depreciation and amortization ("D&A") of other assets increased to \$3.2 million in fiscal 1996, compared to \$1.8 million in fiscal 1995, and \$1.9 million in 1994. This increase in fiscal 1996 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 the

Senior Notes in May 1995 and in April 1996. The Company anticipates an increase in D&A in fiscal 1997 as a result of a full year of debt issuance cost amortization on the 9.125% Senior Notes issued in April 1996 and higher building depreciation expense on the Company's corporate offices, offset by a reduction in depreciation expense associated with the sale of the service company assets.

General and Administrative. General and administrative ("G&A") expenses, which are net of capitalized internal payroll and non-payroll expenses (see Note 10 of Notes to Consolidated Financial Statements), were \$4.8 million in fiscal 1996, up 33% from \$3.6 million in fiscal 1995, and up from \$3.1 million in fiscal 1994. The increases in fiscal 1996 compared to 1995 and 1994 result primarily from increased personnel expenses required by the Company's growth. The Company capitalized \$1.7 million of internal costs in fiscal 1996 directly related to the Company's oil and gas exploration and development efforts, as compared to \$0.6 million in 1995 and \$1.0 million in 1994. The Company anticipates that G&A costs for fiscal 1997 will increase by approximately 25% as a result of the Company's continued growth and increased budgets for exploration and development activities, increasing operations activities, and attendant personnel and overhead requirements.

Interest and Other. Interest and other expense increased to \$13.7 million in fiscal 1996 as compared to \$6.6 million in 1995 and \$2.7 million in fiscal 1994. Interest expense in the fourth quarter of fiscal 1996 was approximately \$4 million, reflecting the issuance of \$120 million of 9.125% Senior Notes in April 1996. In addition to the interest expense reported, the Company capitalized \$6.4 million of interest during fiscal 1996, as compared to \$1.6 million capitalized in 1995 and \$0.4 million in 1994. Interest expense will increase significantly in fiscal 1997 as compared to 1996 as a result of the 9.125% Senior Notes issued in April 1996.

Income Tax Expense. The Company recorded income tax expense of \$12.9 million in fiscal 1996, as compared to \$6.3 million in fiscal 1995, and \$1.3 million in 1994. All of the income tax expense in 1996 was deferred due to a current year tax net operating loss resulting from the Company's active drilling program. A substantial portion of the Company's drilling costs are currently deductible for income tax purposes. The effective tax rate was approximately 35.5% in fiscal 1996 compared to a tax rate of 35% in 1995 and 24% in 1994. The Company anticipates an effective tax rate of between 36 and 36.5% for fiscal 1997 as a result of Louisiana state taxes and higher activity levels in Louisiana. Based upon the anticipated level of drilling activities in fiscal 1997, the Company anticipates that substantially all of its fiscal 1997 income tax expense will be deferred.

Hedging. Periodically the Company utilizes hedging strategies to hedge the price of a portion of its future oil and gas production. These strategies include swap arrangements that establish an index-related price above which the Company pays the hedging partner and below which the Company is paid by the hedging partner, the purchase of index-related puts that provide for a "floor" price to the Company to be paid by the counter-party to the extent the price of the commodity is below the contracted floor, and basis protection swaps. Recognized gains and losses on hedge contracts are reported as a component of the related transaction. Results from hedging transactions are reflected in oil and gas sales to the extent related to the Company's oil and gas production.

As of June 30, 1996, the Company had NYMEX-based crude oil swap agreements for 1,000 Bbl per day for July 1, 1996 through August 31, 1996 at an average price of \$17.85 per Bbl. The counter-party has the option exercisable monthly for an additional 1,000 Bbl per day for the period July 1, 1996 through December 31, 1996 to cause a swap if the price exceeds an average \$17.74 per Bbl. The actual settlements for July and August resulted in a \$0.5 million payment to the counter-party. The Company estimates, based on NYMEX prices as of August 30, 1996, that the effect of the September through December hedges would be a \$0.4 million payment to the counter-party.

The Company has purchased Houston Ship Channel put options which guarantee the Company an average floor price of \$2.21/Mmbtu for 20,000 Mmbtu per day for the period of November 1, 1996 through February 28, 1997. The average cost of these puts was \$0.14 per Mmbtu.

As of June 30, 1996, the Company had NYMEX-based natural gas swaps and NYMEX/Houston Ship Channel Basis swaps for the months of July through October, 1996. These transactions resulted in payments to the Company's counter-party of approximately \$2 million for the month of July 1996 and \$1.5 million for

the month of August 1996. The Company estimates, based on NYMEX prices as of August 30, 1996, that the effect of the September and October hedges would be a \$0.2 million payment to the counter-party.

The Company has only limited involvement with derivative financial instruments, as defined in SFAS 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 to its counter-parties and to basis risk.

LIQUIDITY AND CAPITAL RESOURCES

FINANCING ACTIVITIES

On April 9, 1996 the Company completed a public offering of 2,475,000 shares of Common Stock at a price of \$35.33 per share resulting in net proceeds to the Company of approximately \$82.1 million. On April 12, 1996, the underwriters exercised an over-allotment option to purchase an additional 519,750 shares of Common Stock at a price of \$35.33 per share, resulting in additional net proceeds to the Company of approximately \$17.3 million.

On April 9, 1996 the Company also concluded the sale of \$120 million of 9.125% Senior Notes due 2006 (the "9.125% Senior Notes"), which offering resulted in net proceeds to the Company of approximately \$116 million. The 9.125% Senior Notes were issued at 99.931% of par. Approximately \$44 million of the proceeds of these offerings was used to retire all amounts outstanding under the Company's revolving credit facility. 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 the proceeds of any equity offering. 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.

In fiscal 1995, cash flows from financing activities were \$97.3 million, largely as the result of issuance of \$90 million of 10.5% Senior Notes due 2002 (the "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 prior to June 1, 1998 up to \$30 million of the 10.5% Senior Notes with the proceeds of an equity offering at 110% of the principal amount thereof.

In fiscal 1994, the Company received proceeds from long term borrowings of \$48.8 million, primarily from the issuance of \$47.5 million of 12% Senior Notes due 2001 (the "12% Senior Notes") and warrants to purchase 2,190,937 shares of the Company's Common Stock at an aggregate exercise price of \$4,870. The 12% Senior Note Indenture provides for mandatory redemption of \$11.9 million on each of March 1, 1998, 1999 and 2000. The 12% Senior Notes are redeemable at the option of the Company at any time on or after March 1, 1998.

All of the Company's subsidiaries except Chesapeake Gas Development Corporation ("CGDC") and Chesapeake Energy Marketing, Inc. ("CEMI") have fully and unconditionally guaranteed on a joint and several basis all three issues of Senior Notes, and the securities of the guaranteeing subsidiaries have been pledged to secure obligations under the 12% Senior Notes. See Note 2 of Notes to the Company's Consolidated Financial Statements included in Item 8 of this report. The Senior Note Indentures contain certain covenants, including covenants limiting the Company and the guaranteeing 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 guaranteeing subsidiaries, mergers or consolidations, and transactions with affiliates. The Company is obligated to repurchase the Senior Notes in the event of a change of control, the sale of certain assets or failure to maintain a specified ratio of assets to debt.

FINANCIAL FLEXIBILITY AND LIQUIDITY

The Company had working capital of approximately \$0.3 million at June 30, 1996. Additionally, the Company has unused revolving credit facility commitments that have been increased to \$75 million. The total

facility size has been set at \$125 million. This facility provides for interest at the Union Bank reference rate (8.25% at June 30, 1996), or at the option of the Company the Eurodollar rate plus 1.375% to 1.875%, depending on the ratio of the amount outstanding to the borrowing base. Although the Senior Note Indentures contain various restrictions on additional indebtedness, based on asset values as of June 30, 1996 the Company estimates it could borrow up to \$106 million within these restrictions.

The Company also maintains a limited recourse bank facility with an amount outstanding of \$12.9 million as of June 30, 1996 secured by producing oil and gas properties owned by the Company's wholly-owned subsidiary CGDC. This facility provides for interest at the Union Bank reference rate (8.25% at June 30, 1996). The facility has not been guaranteed by the Company or any of its other subsidiaries and is recourse only to the assets of CGDC. CGDC used proceeds borrowed under this facility to acquire producing oil and gas properties from Chesapeake Exploration Limited Partnership. The terms of the facility prohibit the payment of dividends by CGDC.

Debt ratings for the Senior Notes are Ba3 by Moody's Investors Service and B+ by Standard & Poors Corporation. Both Moody's and S&P upgraded their ratings during the year. The Company's long-term debt represented 60% of total capital at June 30, 1996. The Company's goal is to achieve an equity to capital ratio of at least 50% and a further increase in its credit ratings during fiscal 1997.

OPERATING CASH FLOWS

Cash provided by operating activities was \$121 million in fiscal 1996, as compared to \$54.7 million in 1995, and \$19.4 million in 1994. Operating cash flows for 1996 include enhanced earnings primarily as a result of increased oil and gas production. Other major factors affecting cash flows for 1996, 1995 and 1994 were increases in non-cash charges and cash flows provided by changes in the components of assets and liabilities. Cash provided by operating activities is expected to be the primary source for meeting forecasted cash requirements in 1997.

INVESTING CASH FLOWS

Significantly higher cash was used in fiscal 1996 for development, exploration and acquisition of oil and gas properties as compared to fiscal 1995 and 1994. Approximately \$336 million was expended by the Company in 1996 (net of proceeds from sale of leasehold and equipment, and from providing certain oilfield services), as compared to \$106 million in 1995, an increase of \$230 million, or approximately 216%. In fiscal 1994 the Company expended \$27 million (net of proceeds from sale of leasehold, equipment and other) for development and exploration activities. Net cash proceeds received by the Company for sales of oil and gas equipment, leasehold and other services decreased to approximately \$11 million in fiscal 1996 as compared to \$15 million in 1995. In fiscal 1996, other property and equipment additions were \$8.8 million primarily as a result of the purchase of additional office buildings in Oklahoma City.

The Company's capital spending is largely discretionary. The Company has established a fiscal 1997 capital expenditure budget of approximately \$300 million, of which \$80 million is budgeted to fund drilling and completion requirements for the development of a portion of its proved undeveloped reserves during fiscal 1997. The Company expects to spend approximately \$155 million for drilling and completion of non-proved reserves, \$10 million for seismic programs, \$42 million for acreage acquisition and \$13 million for other corporate purposes. Absent a significant increase in the Company's drilling schedule, the Company's internally generated cash flow, existing cash resources and credit facilities should be sufficient to fund its operating activities, budgeted capital expenditures, and its debt service obligations in fiscal 1997. However, the Company may seek additional capital in fiscal 1997 to expand its exploration and development activities or reduce outstanding long-term debt. The discretionary nature of nearly all of the Company's capital spending permits the Company to make adjustments to its budget based upon factors such as oil and gas pricing, exploration and development drilling results, and the continued availability of internally generated or external capital resources.

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, 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, environmental risks, drilling and operating risks, risks related to exploration and development drilling, uncertainties about estimates of reserves, competition, government regulation, and the ability of the Company to implement its business strategy.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
of Chesapeake Energy Corporation

We have audited the accompanying consolidated balance sheet of Chesapeake Energy Corporation and its subsidiaries as of June 30, 1996, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended. 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 in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audit provides 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 June 30, 1996, and the consolidated results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

Oklahoma City, Oklahoma
September 13, 1996

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
of Chesapeake Energy Corporation

In our opinion, the consolidated balance sheet and the related consolidated statements of income, of cash flows and of stockholders' equity as of and for each of the two years in the period ended June 30, 1995 present fairly, in all material respects, the financial position, results of operations and cash flows of Chesapeake Energy Corporation and its subsidiaries as of and for each of the two years in the period 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 audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements of Chesapeake Energy Corporation for any period subsequent to June 30, 1995.

PRICE WATERHOUSE LLP

Houston, Texas
September 20, 1995, except for Note 9
which is as of September 23, 1996

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	JUNE 30,	
	----- 1996	1995 -----
	(\$ IN THOUSANDS)	
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 51,638	\$ 55,535
Accounts receivable:		
Oil and gas sales.....	12,687	10,644
Gas marketing sales.....	6,982	--
Joint interest and other, net of allowances of \$340,000 and \$452,000, respectively.....	27,661	26,317
Related parties.....	2,884	4,386
Inventory.....	5,163	8,926
Other.....	2,158	633
	-----	-----
Total Current Assets.....	109,173	106,441
	-----	-----
PROPERTY AND EQUIPMENT:		
Oil and gas properties, at cost based on full cost accounting:		
Evaluated oil and gas properties.....	363,213	165,302
Unevaluated properties.....	165,441	27,474
Less: accumulated depreciation, depletion and amortization.....	(92,720)	(41,821)
	-----	-----
Other property and equipment.....	435,934	150,955
Less: accumulated depreciation and amortization.....	18,162	16,966
	(2,922)	(4,120)
	-----	-----
Total Property and Equipment.....	451,174	163,801
	-----	-----
OTHER ASSETS.....	11,988	6,451
	-----	-----
TOTAL ASSETS.....	\$572,335	\$276,693
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable and current maturities of long-term debt.....	\$ 6,755	\$ 9,993
Accounts payable.....	54,514	33,438
Accrued liabilities and other.....	14,062	7,688
Revenues and royalties due others.....	33,503	23,786
	-----	-----
Total Current Liabilities.....	108,834	74,905
	-----	-----
LONG-TERM DEBT, NET.....	268,431	145,754
	-----	-----
REVENUES AND ROYALTIES DUE OTHERS.....	5,118	3,779
	-----	-----
DEFERRED INCOME TAXES.....	12,185	7,280
	-----	-----
CONTINGENCIES AND COMMITMENTS (Note 4).....	--	--
	-----	-----
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$.01 par value, 2,000,000 shares authorized; 0 shares issued and outstanding.....	--	--
Common Stock, 45,000,000 shares authorized; \$.10 par value at June 30, 1996, \$.0022 par value at June 30, 1995; 30,079,913 and 26,311,248 shares issued and outstanding at June 30, 1996 and 1995, respectively.....	3,008	58
Paid-in capital.....	136,782	30,295
Accumulated earnings.....	37,977	14,622
	-----	-----
Total Stockholders' Equity.....	177,767	44,975
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$572,335	\$276,693
	=====	=====

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED JUNE 30,		
	1996	1995	1994
	(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)		
REVENUES:			
Oil and gas sales.....	\$110,849	\$56,983	\$22,404
Gas marketing sales.....	28,428	--	--
Oil and gas service operations.....	6,314	8,836	6,439
Interest and other.....	3,831	1,524	981
Total Revenues.....	149,422	67,343	29,824
COSTS AND EXPENSES:			
Production expenses and taxes.....	8,303	4,256	3,647
Gas marketing expenses.....	27,452	--	--
Oil and gas service operations.....	4,895	7,747	5,199
Oil and gas depreciation, depletion and amortization.....	50,899	25,410	8,141
Depreciation and amortization of other assets.....	3,157	1,765	1,871
General and administrative.....	4,828	3,578	3,135
Interest and other.....	13,679	6,627	2,676
Total Costs and Expenses.....	113,213	49,383	24,669
INCOME BEFORE INCOME TAXES.....	36,209	17,960	5,155
INCOME TAX EXPENSE.....	12,854	6,299	1,250
NET INCOME.....	\$ 23,355	\$11,661	\$ 3,905
EARNINGS PER COMMON SHARE:			
NET INCOME PER COMMON SHARE			
Primary.....	\$.80	\$.42	\$.16
Fully-diluted.....	\$.79	\$.41	\$.16
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING			
Primary.....	29,171	27,936	24,120
Fully-diluted.....	29,461	28,303	24,183

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED JUNE 30,		
	1996	1995	1994
	----- (\$ IN THOUSANDS) -----		
CASH FLOWS FROM OPERATING ACTIVITIES:			
NET INCOME.....	\$ 23,355	\$ 11,661	\$ 3,905
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation, depletion and amortization.....	52,768	26,628	9,455
Deferred taxes.....	12,854	6,299	1,250
Amortization of loan costs.....	1,288	548	557
Amortization of bond discount.....	563	567	138
Bad debt expense.....	114	308	222
Purchases and sales of trading securities, net.....	622	--	--
Gain on sale of fixed assets.....	(2,511)	(108)	--
CHANGES IN ASSETS AND LIABILITIES:			
(Increase) decrease in accounts receivable.....	(3,524)	(22,510)	(7,773)
(Increase) decrease in inventory.....	78	(1,203)	(304)
(Increase) decrease in other current assets.....	(1,525)	614	(726)
Increase (decrease) in accounts payable, accrued liabilities and other.....	25,834	19,387	10,077
Increase in current and non-current revenues and royalties due others.....	11,056	12,540	2,622
	-----	-----	-----
Cash provided by operating activities.....	120,972	54,731	19,423
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Exploration, development and acquisition of oil and gas properties.....	(347,294)	(120,985)	(34,654)
Proceeds from sale of oil and gas equipment, leasehold and other.....	11,416	15,107	7,598
Other proceeds from sales.....	698	1,104	765
Investment in gas marketing company, net of cash acquired.....	(363)	--	--
Other property and equipment additions.....	(8,846)	(7,929)	(2,920)
	-----	-----	-----
Cash used in investing activities.....	(344,389)	(112,703)	(29,211)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of Common Stock.....	99,498	--	--
Proceeds from long-term borrowings.....	166,667	128,834	48,800
Payments on long-term borrowings.....	(48,634)	(32,370)	(25,738)
Placement fee on Senior Notes and Warrants.....	--	--	(1,900)
Cash received from exercise of stock options.....	1,989	818	--
	-----	-----	-----
Cash provided by financing activities.....	219,520	97,282	21,162
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents.....	(3,897)	39,310	11,374
Cash and cash equivalents, beginning of period.....	55,535	16,225	4,851
	-----	-----	-----
Cash and cash equivalents, end of period.....	\$ 51,638	\$ 55,535	\$ 16,225
	=====	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
CASH PAYMENTS FOR:			
Interest.....	\$ 17,179	\$ 6,488	\$ 1,467
Income taxes.....	\$ --	\$ --	\$ 109

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONTINUED)

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

The Company has a financing arrangement with a vendor to supply certain oil and gas equipment inventory. The total amounts owed at June 30, 1996, 1995 and 1994 were \$3,156,000, \$6,513,000 and \$5,952,000, respectively. No cash consideration is exchanged for inventory under this financing arrangement until actual draws on the inventory are made.

In fiscal 1996 and 1995, the Company recognized income tax benefits of \$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 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 March 31, 1994, the Company issued 8,000 units (see Note 2) to Trust Company of the West ("TCW") primarily in consideration for the surrender of 576,923 shares of the Company's 9% convertible preferred stock, including its rights to dividends, warrants to purchase Common Stock and an overriding royalty interest.

In February 1994, pending litigation was settled pursuant to an agreement requiring COI to pay \$1.25 million, of which \$250,000 plus interest was paid in July 1994, and the balance of which was paid in June 1995.

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	YEAR ENDED JUNE 30,		
	1996	1995	1994
	(\$ IN THOUSANDS)		
PREFERRED STOCK:			
Balance, beginning of period.....	\$ --	\$ --	\$ 6
Exchange of 576,923 shares of Preferred Stock.....	--	--	(6)
Balance, end of period.....	--	--	--
COMMON STOCK:			
Balance, beginning of period.....	58	51	51
Issuance of 2,994,750 shares of Common Stock.....	299	--	--
Exercise of stock options and warrants.....	79	7	--
Change in par value from \$.0022 to \$.10.....	2,572	--	--
Balance, end of period.....	3,008	58	51
COMMON STOCK WARRANTS:			
Balance, beginning of period.....	--	5	--
Issuance of Common Stock Warrants.....	--	--	5
Exercise of Common Stock Warrants.....	--	(5)	--
Balance, end of period.....	--	--	5
PAID-IN CAPITAL:			
Balance, beginning of period.....	30,295	28,243	32,704
Exchange of Preferred Stock.....	--	--	(7,494)
Issuance of Common Stock Warrants.....	--	--	3,033
Exercise of stock options and warrants.....	1,910	823	--
Issuance of Common Stock.....	105,516	--	--
Offering expenses and other.....	(6,317)	--	--
Tax benefit from exercise of stock options.....	7,950	1,229	--
Change in par value from \$.0022 to \$.10.....	(2,572)	--	--
Balance, end of period.....	136,782	30,295	28,243
ACCUMULATED EARNINGS (DEFICIT):			
Balance, beginning of period.....	14,622	2,961	(1,329)
Net income.....	23,355	11,661	3,905
Preferred dividends.....	--	--	(340)
Cancellation of preferred dividends.....	--	--	725
Balance, end of period.....	37,977	14,622	2,961
TOTAL STOCKHOLDERS' EQUITY.....	\$177,767	\$44,975	\$31,260
	=====	=====	=====

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

Principles of Consolidation

The accompanying consolidated financial statements of Chesapeake Energy Corporation (the "Company" or "Parent") include the accounts of Chesapeake Operating, Inc. ("COI"), Chesapeake Exploration Limited Partnership ("CEX"), a limited partnership, Chesapeake Gas Development Corporation ("CGDC"), Chesapeake Energy Marketing, Inc. ("CEMI"), Lindsay Oil Field Supply, Inc. ("LOF"), Sander Trucking Company, Inc. ("STCO") and subsidiaries of those entities. All significant intercompany accounts and transactions have been eliminated.

In December 1995, the Company entered into the gas marketing business by acquiring all of the outstanding stock of an Oklahoma City-based natural gas marketing company for total consideration of \$725,000. This subsidiary was subsequently named CEMI. CEMI provides natural gas marketing services including commodity price structuring, contract administration and nomination services for the Company, its partners and other natural gas producers in the geographical areas in which the Company is active.

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.

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 annually by independent petroleum engineers. The average composite rates used for depreciation, depletion and amortization were \$0.85, \$0.80 and \$0.80 per equivalent Mcf in 1996, 1995, and 1994, 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. Unamortized costs as reduced by related deferred taxes are subject to a ceiling which limits such amounts to the estimated present value of oil and gas reserves, reduced by operating expenses, future development costs and income taxes. The costs of unproved properties are excluded from amortization until the properties are evaluated.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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 \$35 million, subject to adjustment for activity after the effective date of January 1, 1996. The properties are located in the Knox and Golden Trend fields of southern Oklahoma, most of which are operated by the Company.

Other Property and Equipment

Other property and equipment primarily consists of vehicles, 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 over the estimated useful lives of the assets, which range from three to 30 years.

Leases

Included in other property and equipment in the consolidated balance sheets is computer equipment and software held under capital leases. Minimum lease payments under these capital leases and other operating leases are as follows:

	CAPITAL LEASES	OPERATING LEASES
	-----	-----
	(\$ IN THOUSANDS)	
1997.....	\$ 62	\$ 133
1998.....	62	58
1999.....	15	53
2000.....	0	0
2001.....	0	0
	----	----
Total minimum lease payments.....	139	\$ 244
		=====
Less: amount relating to interest.....	(20)	

Present value of minimum payments.....	\$ 119	
	=====	

Capitalized Interest

During fiscal 1996, 1995 and 1994, interest of approximately \$6,428,000, \$1,574,000 and \$356,000 was capitalized on significant investments in unproved properties that are not being currently depreciated, depleted, or amortized and on which exploration or development activities are in progress.

Service Operations

Certain subsidiaries of the Company performed contractual services on wells the Company operates 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 income include amounts derived from certain of the contractual services provided. The Company's economic interest in its oil and gas properties is 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 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 the industry. The Company sold its

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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 will be 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 Per Share

Primary and fully diluted earnings per share for all periods have been computed based upon the weighted average number of shares of Common Stock outstanding after giving retroactive effect to all stock splits and the issuance of common stock equivalents when their effect is dilutive. Dilutive options or warrants which are issued during a period or which expire or are cancelled during a period are reflected in both primary and fully diluted earnings per share computations for the time they were outstanding during the period being reported upon.

Gas Imbalances

The Company follows the "sales method" of accounting for its oil and gas revenue whereby the Company recognizes sales revenue on all oil or 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 reserves on the underlying properties. The Company's net imbalance positions at June 30, 1996 and 1995 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.

Debt Issue Costs

Other assets relate primarily to debt issue costs associated with the issuance of the 12% Senior Notes on March 31, 1994, the 10.5% Senior Notes on May 25, 1995, and the 9.125% Senior Notes on April 9, 1996 (see Note 2). The remaining unamortized costs on these issuances of Senior Notes at June 30, 1996 totaled \$8.7 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 plans to continue to retain its current method of accounting for stock compensation and adopt the disclosure requirements of this Statement in fiscal 1997.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for the years ended June 30, 1995 and 1994 to conform to the presentation used for the June 30, 1996 consolidated financial statements.

2. SENIOR NOTES

On April 9, 1996, the Company completed an offering of \$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 at the redemption or make-whole prices set forth in the indenture. 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 completed a private offering of \$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 any time 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. In September 1995, the Company exchanged the 10.5% Senior Notes for substantially identical notes in a registered exchange offer (also referred to as the "10.5% Senior Notes").

On March 31, 1994, the Company completed a private offering of 47,500 Units consisting of an aggregate of \$47.5 million principal amount of 12% Senior Notes due 2001 ("12% Senior Notes") and warrants ("Warrants") to purchase 2,190,937 shares of the Company's Common Stock at an aggregate exercise price of \$4,870. The Warrants were valued at \$3 million creating a discount on the 12% Senior Notes. All of the Warrants were subsequently exercised. In exchange for 8,000 Units, the Company acquired from Trust Company of the West ("TCW") 576,923 shares of the Company's 9% cumulative convertible preferred stock and all rights to dividends thereon, warrants to purchase 1,404,004 shares of the Company's Common Stock and 50% of an outstanding overriding royalty interest held by TCW. The 12% Senior Notes are redeemable at the option of the Company at any time on or after March 1, 1998 at an initial premium of 106% of the principal amount thereof, declining to no premium in 2000. The Company is required to redeem \$11,875,000 principal amount of 12% Senior Notes on each of March 1, 1998, 1999 and 2000. In November 1994, the Company exchanged the 12% Senior Notes for substantially identical notes in a registered exchange offer (also referred to as the "12% Senior Notes").

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 12% Senior Notes, the 10.5% Senior Notes and the 9.125% 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 Notes): COI, LOF, STCO, Whitmire Dozer Service, Inc. and CEX (collectively, the "Subsidiary Guarantors"). The only subsidiaries of the Company that are not Subsidiary Guarantors are CGDC and CEMI (together, the "Non-Guarantor Subsidiaries"). Each of the Subsidiary Guarantors is a direct or indirect wholly-owned subsidiary of the Company. The securities of the Subsidiary Guarantors have been pledged to secure performance of the Company's obligations under the 12% Senior Notes. The only affiliate securities constituting a substantial portion of the collateral for the 12% Senior Notes are the partnership interests in CEX.

The 12%, 10.5% and 9.125% Senior Note Indentures contain certain covenants, including covenants limiting the Company and the Subsidiary Guarantors 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 Subsidiary Guarantors; mergers or consolidations; and transactions with affiliates. The Company is also obligated to repurchase 12%,

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

10.5% and 9.125% Senior Notes if it fails to maintain a specified ratio of assets to debt and in the event of a change of control or certain asset sales.

The Company's bank credit agreement prohibits any distributions by CEX to its partners (the Company and COI) if the maturity of any obligations to the lender has been accelerated. The pledge agreement relating to the 12% Senior Notes requires that all dividends and distributions from Subsidiary Guarantors be paid to the collateral agent thereunder upon an event of default under the 12% Senior Notes Indenture. There are no other restrictions on the payment of cash dividends by Subsidiary Guarantors.

CEX is a limited partnership which is 10% owned by COI, as sole general partner, and 90% owned directly by the Company, as sole limited partner. CEX owns 94% and CGDC owns 6% of the Company's producing oil and gas properties, based on the present value of future net revenue at June 30, 1996 (discounted at 10%).

Set forth below are condensed consolidating financial statements of CEX, the other Subsidiary Guarantors, all Subsidiary Guarantors combined, the Non-Guarantor Subsidiaries and the Company. The CEX limited partnership condensed financial statements were prepared on a separate entity basis as reflected in the Company's books and records and include all material costs of doing business as if the partnership were on a stand-alone basis except that interest is not charged or allocated. No provision has been made for income taxes because the partnership is not a taxpaying entity. Separate audited financial statements of each Subsidiary Guarantor, other than CEX, have not been provided because management has determined that they are not material to investors.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 1996
(IN THOUSANDS)

ASSETS

	SUBSIDIARY GUARANTORS			NON- GUARANTOR SUBSIDIARIES	COMPANY (PARENT)	ELIMINATIONS	CONSOLIDATED
	CEX	ALL OTHERS	COMBINED				
CURRENT ASSETS:							
Cash and cash equivalents.....	\$ --	\$ 4,061	\$ 4,061	\$ 2,751	\$44,826	\$ --	\$ 51,638
Accounts receivable.....	14,778	29,302	44,080	7,723	--	(1,589)	50,214
Inventory.....	--	4,947	4,947	216	--	--	5,163
Other.....	1,891	264	2,155	3	--	--	2,158
Total Current Assets.....	16,669	38,574	55,243	10,693	44,826	(1,589)	109,173
PROPERTY AND EQUIPMENT:							
Oil and gas properties.....	346,821	(8,211)	338,610	24,603	--	--	363,213
Unevaluated leasehold.....	165,441	--	165,441	--	--	--	165,441
Other property and equipment.....	--	9,608	9,608	61	8,493	--	18,162
Less: accumulated depreciation, depletion and amortization.....	(84,726)	(2,467)	(87,193)	(8,007)	(442)	--	(95,642)
	427,536	(1,070)	426,466	16,657	8,051	--	451,174
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES.....							
	56,055	463,331	519,386	8,132	382,388	(909,906)	--
OTHER ASSETS.....	694	1,616	2,310	940	8,738	--	11,988
TOTAL ASSETS.....	\$500,954	\$502,451	\$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	\$ 3,846	\$ 2,880	\$ 29	\$ --	\$ 6,755
Accounts payable and other.....	789	90,280	91,069	7,339	5,260	(1,589)	102,079
Total Current Liabilities...	789	94,126	94,915	10,219	5,289	(1,589)	108,834
LONG-TERM DEBT.....	--	2,113	2,113	10,020	256,298	--	268,431
REVENUES AND ROYALTIES DUE OTHERS...	--	5,118	5,118	--	--	--	5,118
DEFERRED INCOME TAXES.....	--	23,950	23,950	1,335	(13,100)	--	12,185
INTERCOMPANY PAYABLES.....	413,726	410,581	824,307	8,182	73,647	(906,136)	--
STOCKHOLDERS' EQUITY:							
Common Stock.....	--	117	117	2	2,891	(2)	3,008
Other.....	86,439	(33,554)	52,885	6,664	118,978	(3,768)	174,759
	86,439	(33,437)	53,002	6,666	121,869	(3,770)	177,767
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$500,954	\$502,451	\$1,003,405	\$ 36,422	\$444,003	\$(911,495)	\$572,335

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 1995
(IN THOUSANDS)

ASSETS

	SUBSIDIARY GUARANTORS			NON- GUARANTOR SUBSIDIARIES	COMPANY (PARENT)	ELIMINATIONS	CONSOLIDATED
	CEX	ALL OTHERS	COMBINED				
CURRENT ASSETS:							
Cash and cash equivalents.....	\$ --	\$ 53,227	\$ 53,227	\$ 5	\$ 2,303	\$ --	\$ 55,535
Accounts receivable.....	9,867	30,693	40,560	777	10	--	41,347
Inventory.....	--	8,895	8,895	31	--	--	8,926
Other.....	--	633	633	--	--	--	633
Total Current Assets.....	9,867	93,448	103,315	813	2,313	--	106,441
PROPERTY AND EQUIPMENT:							
Oil and gas properties.....	163,521	(16,723)	146,798	18,504	--	--	165,302
Unevaluated leasehold.....	27,474	--	27,474	--	--	--	27,474
Other property and equipment.....	--	12,199	12,199	--	4,767	--	16,966
Less: accumulated depreciation, depletion and amortization.....	(36,959)	(3,847)	(40,806)	(4,861)	(274)	--	(45,941)
	154,036	(8,371)	145,665	13,643	4,493	--	163,801
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES.....							
	17,559	181,914	199,473	--	176,795	(376,268)	--
OTHER ASSETS.....	776	41	817	123	5,511	--	6,451
TOTAL ASSETS.....	\$182,238	\$267,032	\$449,270	\$14,579	\$189,112	\$(376,268)	\$276,693
LIABILITIES AND STOCKHOLDERS' EQUITY							
CURRENT LIABILITIES:							
Notes payable and current maturities of long-term debt.....	\$ --	\$ 7,757	\$ 7,757	\$ 2,200	\$ 36	\$ --	\$ 9,993
Accounts payable and other.....	516	61,777	62,293	--	2,619	--	64,912
Total Current Liabilities....	516	69,534	70,050	2,200	2,655	--	74,905
LONG-TERM DEBT.....	10	1,326	1,336	8,600	135,818	--	145,754
REVENUES AND ROYALTIES DUE OTHERS....	--	3,779	3,779	--	--	--	3,779
DEFERRED INCOME TAXES.....	--	9,621	9,621	164	(2,505)	--	7,280
INTERCOMPANY PAYABLES.....	140,236	201,959	342,195	3,307	30,766	(376,268)	--
STOCKHOLDERS' EQUITY:							
Common Stock.....	--	31	31	1	58	(32)	58
Other.....	41,476	(19,218)	22,258	307	22,320	32	44,917
	41,476	(19,187)	22,289	308	22,378	--	44,975
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$182,238	\$267,032	\$449,270	\$14,579	\$189,112	\$(376,268)	\$276,693

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(\$ IN THOUSANDS)

	SUBSIDIARY GUARANTORS			NON- GUARANTOR SUBSIDIARIES	COMPANY (PARENT)	ELIMINATIONS	CONSOLIDATED
	CEX	ALL OTHERS	COMBINED				
FOR THE YEAR ENDED JUNE 30, 1996:							
REVENUES:							
Oil and gas sales.....	\$103,712	\$ --	\$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	--	--	--	6,314
Interest and other.....	(1,473)	3,390	1,917	238	1,676	--	3,831
	102,239	9,704	111,943	42,095	1,676	(6,292)	149,422
COSTS AND EXPENSES:							
Production expenses and taxes.....	7,225	332	7,557	746	--	--	8,303
Gas marketing expenses.....	--	--	--	33,744	--	(6,292)	27,452
Oil and gas service operations.....	--	4,895	4,895	--	--	--	4,895
Oil and gas depreciation, depletion and amortization.....	48,333	--	48,333	2,566	--	--	50,899
Other depreciation and amortization.....	258	1,666	1,924	73	1,160	--	3,157
General and administrative.....	1,090	2,593	3,683	496	649	--	4,828
Interest and other.....	370	138	508	711	12,460	--	13,679
	57,276	9,624	66,900	38,336	14,269	(6,292)	113,213
Income (loss) before income taxes.....	44,963	80	45,043	3,759	(12,593)	--	36,209
Income tax expense (benefit).....	--	15,990	15,990	1,335	(4,471)	--	12,854
Net income (loss).....	\$ 44,963	\$(15,910)	\$29,053	\$ 2,424	\$ (8,122)	\$ --	\$ 23,355
FOR THE YEAR ENDED JUNE 30, 1995:							
REVENUES:							
Oil and gas sales.....	\$ 55,417	\$ --	\$55,417	\$ 1,566	\$ --	\$ --	\$ 56,983
Oil and gas service operations.....	--	8,836	8,836	--	--	--	8,836
Interest and other.....	--	1,394	1,394	--	130	--	1,524
	55,417	10,230	65,647	1,566	130	--	67,343
COSTS AND EXPENSES:							
Production expenses and taxes.....	3,494	551	4,045	211	--	--	4,256
Oil and gas service operations.....	--	7,747	7,747	--	--	--	7,747
Oil and gas depreciation, depletion and amortization.....	24,769	6	24,775	635	--	--	25,410
Other depreciation and amortization.....	138	1,107	1,245	5	515	--	1,765
General and administrative.....	931	1,689	2,620	58	900	--	3,578
Interest and other.....	352	218	570	184	5,873	--	6,627
	29,684	11,318	41,002	1,093	7,288	--	49,383
Income (loss) before income taxes.....	25,733	(1,088)	24,645	473	(7,158)	--	17,960
Income tax expense (benefit).....	--	8,639	8,639	165	(2,505)	--	6,299
Net Income (loss).....	\$ 25,733	\$ (9,727)	\$16,006	\$ 308	\$ (4,653)	\$ --	\$ 11,661
FOR THE YEAR ENDED JUNE 30, 1994:							
REVENUES:							
Oil and gas sales.....	\$ 22,404	\$ --	\$22,404	\$ --	\$ --	\$ --	\$ 22,404
Oil and gas service operations.....	--	6,439	6,439	--	--	--	6,439
Interest and other.....	--	622	622	--	359	--	981
	22,404	7,061	29,465	--	359	--	29,824
COSTS AND EXPENSES:							
Production expenses and taxes.....	3,185	462	3,647	--	--	--	3,647
Oil and gas service operations.....	--	5,199	5,199	--	--	--	5,199
Oil and gas depreciation, depletion and amortization.....	8,141	--	8,141	--	--	--	8,141
Other depreciation and amortization.....	171	1,536	1,707	--	164	--	1,871
General and administrative.....	823	2,169	2,992	--	143	--	3,135
Interest and other.....	507	1,492	1,999	--	677	--	2,676
	12,827	10,858	23,685	--	984	--	24,669
Income (loss) before income taxes.....	9,577	(3,797)	5,780	--	(625)	--	5,155
Income tax expense (benefit).....	--	1,400	1,400	--	(150)	--	1,250
Net income (loss).....	\$ 9,577	\$ (5,197)	\$ 4,380	\$ --	\$ (475)	\$ --	\$ 3,905

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
(\$ IN THOUSANDS)

	SUBSIDIARY GUARANTORS			NON- GUARANTOR SUBSIDIARIES	COMPANY (PARENT)	ELIMINATIONS	CONSOLIDATED
	CEX	ALL OTHERS	COMBINED				
FOR THE YEAR ENDED JUNE 30, 1996:							
CASH FLOWS FROM OPERATING							
ACTIVITIES.....	\$ 91,286	\$ 35,582	\$ 126,868	\$ 4,204	\$ (10,100)	\$ --	\$ 120,972
CASH FLOWS FROM INVESTING ACTIVITIES:							
Oil and gas properties.....	(329,507)	(16,988)	(346,495)	(6,099)	--	5,300	(347,294)
Proceeds from sales.....	7,458	9,956	17,414	--	--	(5,300)	12,114
Investment in gas marketing company.....	--	--	--	266	(629)	--	(363)
Other additions.....	(177)	(4,506)	(4,683)	(109)	(4,054)	--	(8,846)
	(322,226)	(11,538)	(333,764)	(5,942)	(4,683)	--	(344,389)
CASH FLOWS FROM FINANCING ACTIVITIES:							
Proceeds from borrowings.....	39,000	1,350	40,350	10,300	116,017	--	166,667
Payments on borrowings.....	(44,010)	(1,387)	(45,397)	(3,200)	(37)	--	(48,634)
Cash received from exercise of stock options.....	--	--	--	--	1,989	--	1,989
Cash received from issuance of common stock.....	--	--	--	--	99,498	--	99,498
Intercompany advances, net.....	235,950	(73,173)	162,777	(2,616)	(160,161)	--	--
	230,940	(73,210)	157,730	4,484	57,306	--	219,520
Net increase (decrease) in cash and cash equivalents.....	--	(49,166)	(49,166)	2,746	42,523	--	(3,897)
Cash, beginning of period.....	--	53,227	53,227	5	2,303	--	55,535
Cash, end of period.....	\$ --	\$ 4,061	\$ 4,061	\$ 2,751	\$ 44,826	\$ --	\$ 51,638
FOR THE YEAR ENDED JUNE 30, 1995:							
CASH FLOWS FROM OPERATING							
ACTIVITIES.....	\$ 46,753	\$ 13,296	\$ 60,049	\$ 305	\$ (4,692)	\$ (931)	\$ 54,731
CASH FLOWS FROM INVESTING ACTIVITIES:							
Oil and gas properties.....	(111,980)	(4,896)	(116,876)	(4,109)	--	--	(120,985)
Proceeds from sales.....	16,579	11,132	27,711	--	--	(11,500)	16,211
Purchase of oil and gas properties.....	--	--	--	(11,500)	--	11,500	--
Other additions.....	--	(7,929)	(7,929)	--	--	--	(7,929)
	(95,401)	(1,693)	(97,094)	(15,609)	--	--	(112,703)
CASH FLOWS FROM FINANCING ACTIVITIES:							
Proceeds from borrowings.....	28,433	1,601	30,034	11,500	87,300	--	128,834
Payments on borrowings.....	(28,433)	(3,599)	(32,032)	(700)	362	--	(32,370)
Intercompany advances, net.....	48,648	29,676	78,324	4,509	(83,764)	931	--
Other financing.....	--	--	--	--	818	--	818
	48,648	27,678	76,326	15,309	4,716	931	97,282
Net increase (decrease) in cash and cash equivalents.....	--	39,281	39,281	5	24	--	39,310
Cash, beginning of period.....	--	13,946	13,946	--	2,279	--	16,225
Cash, end of period.....	\$ --	\$ 53,227	\$ 53,227	\$ 5	\$ 2,303	\$ --	\$ 55,535
FOR THE YEAR ENDED JUNE 30, 1994:							
CASH FLOWS FROM OPERATING							
ACTIVITIES.....	\$ 13,131	\$ 7,707	\$ 20,838	\$ --	\$ (1,415)	\$ --	\$ 19,423
CASH FLOWS FROM INVESTING ACTIVITIES:							
Oil and gas properties.....	(33,466)	(1,188)	(34,654)	--	--	--	(34,654)
Proceeds from sales.....	3,268	5,095	8,363	--	--	--	8,363
Other additions.....	(159)	(1,782)	(1,941)	--	(979)	--	(2,920)
	(30,357)	2,125	(28,232)	--	(979)	--	(29,211)
CASH FLOWS FROM FINANCING ACTIVITIES:							
Proceeds from borrowings.....	--	8,800	8,800	--	40,000	--	48,800
Payments on borrowings.....	(10,201)	(15,537)	(25,738)	--	--	--	(25,738)
Intercompany advances, net.....	27,250	6,715	33,965	--	(33,965)	--	--
Other financing.....	--	--	--	--	(1,900)	--	(1,900)
	17,049	(22)	17,027	--	4,135	--	21,162
Net increase (decrease) in cash and cash equivalents.....	(177)	9,810	9,633	--	1,741	--	11,374
Cash, beginning of period.....	177	4,136	4,313	--	538	--	4,851
Cash, end of period.....	\$ --	\$ 13,946	\$ 13,946	\$ --	\$ 2,279	\$ --	\$ 16,225

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. NOTES PAYABLE AND LONG-TERM DEBT

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

	JUNE 30,	
	1996	1995
	(\$ IN THOUSANDS)	
9.125% Senior Notes (see Note 2).....	\$120,000	\$ --
Discount on 9.125% Senior Notes.....	(81)	--
10.5% Senior Notes (see Note 2).....	90,000	90,000
12% Senior Notes (see Note 2).....	47,500	47,500
Discount on 12% Senior Notes.....	(1,772)	(2,333)
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	10,800
Term note payable to Union Bank, variable interest at Union Bank's base rate or at Eurodollar rate + an incremental rate (8.25% per annum at June 30, 1996), collateralized by CEX's producing oil and gas properties and guaranteed by the Company.....	--	10
Note payable to a vendor, collateralized by oil and gas tubulars, payments due 60 days from shipment of the tubulars.....	3,156	6,513
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	686
Notes payable to various entities to acquire oil service equipment, interest varies from 7% to 11% per annum, collateralized by equipment, payments due in monthly installments through December 2000.....	1,212	2,162
Other collateralized.....	1,469	230
Other, unsecured.....	122	179
Total notes payable and long-term debt.....	275,186	155,747
Less -- Current maturities.....	(6,755)	(9,993)
Notes payable and long-term debt, net of current maturities....	\$268,431	\$145,754
	=====	=====

The aggregate scheduled maturities of notes payable and long-term debt for the next five fiscal years ending June 30, 2001 and thereafter were as follows as of June 30, 1996 (in thousands of dollars):

1997.....	\$ 6,755
1998.....	14,234
1999.....	13,637
2000.....	13,344
2001.....	14,565
After 2001.....	212,651

	\$275,186
	=====

In April 1993, CEX entered into an oil and gas reserve-based reducing revolving credit facility (the "Revolving Credit Facility") with Union Bank. The Revolving Credit Facility has been amended from time to

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

time, most recently in September 1996. Concurrent with the September 1996 amendment, the Company increased the facility size to \$125 million and expanded its bank group with Union Bank remaining as agent.

The maturity date of the Revolving Credit Facility is April 30, 2001. The facility provides for interest at the Union Bank reference rate (8.25% at June 30, 1996) or, at the option of the Company the Eurodollar rate plus 1.375% to 1.875% depending on the ratio of the amount outstanding to the borrowing base. Borrowings are collateralized by a first priority lien on substantially all of CEX's proved producing reserves, and are unconditionally guaranteed by the Company. At June 30, 1996 and 1995 there was \$0 and \$10,000 outstanding under the Revolving Credit Facility, respectively.

The amount of credit available at any time under the Revolving Credit Facility is the lesser of the commitment amount or the borrowing base. The borrowing base is reduced each month by a specified amount. Both the borrowing base and the monthly reduction amount are redetermined by Union Bank each May 1 and November 1 and may be redetermined at any other time upon the request of CEX or Union Bank. To the extent the amount outstanding at any time exceeds the borrowing base, CEX must reduce the amount outstanding or add additional collateral. At June 30, 1996, the commitment amount and the borrowing base under the Revolving Credit Facility were \$35 million, and the monthly reduction amount was \$700,000. The Revolving Credit Facility was amended in September 1996 to provide for a borrowing base and a commitment amount of \$75 million, with a monthly reduction amount of \$1,750,000. The Revolving Credit Facility contains customary financial covenants, limitations on indebtedness and liabilities, liens, prepayments of other indebtedness (including the 12%, 10.5% and 9.125% Senior Notes) and loans, investments and guarantees by the Company and prohibits the payment of dividends on the Company's Common Stock.

The Company's wholly-owned subsidiary, CGDC, has a credit facility with Union Bank (the "Term Credit Facility"), with an outstanding balance of \$12.9 million at June 30, 1996. Collateral for the Term Credit Facility is limited to CGDC's producing oil and gas properties. The Term Credit Facility has not been guaranteed by the Company or any of its other subsidiaries and is recourse only to the assets of CGDC. CGDC acquired producing oil and gas properties from CEX in December 1994, June 1995 and December 1995 in exchange for \$5.5 million, \$6 million and \$5.3 million in cash, respectively, using proceeds borrowed under this facility. CGDC has not guaranteed the payment of the Company's 12%, 10.5% or 9.125% Senior Notes, nor has the capital stock of CGDC been pledged as collateral for such indebtedness. The terms of the Term Credit Facility prohibit the payment of dividends by CGDC.

4. CONTINGENCIES AND COMMITMENTS

The Company is currently involved in various 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 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 June 30, 1997 through June 30, 1998.

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 environmental issues or claims.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

5. INCOME TAXES

As discussed in Note 1, the Company has adopted SFAS 109. The components of the income tax provision for each of the periods are as follows:

	YEAR ENDED JUNE 30,		
	1996	1995	1994
	----- ----- ----- (\$ IN THOUSANDS)		
Current.....	\$ --	\$ --	\$ --
Deferred.....	12,854	6,299	1,250
	----- ----- -----		
Total.....	\$12,854	\$6,299	\$1,250
	=====		

The effective income tax rate differed from the computed "expected" federal income tax rate on earnings before income taxes for the following reasons:

	YEAR ENDED JUNE 30,		
	1996	1995	1994
	----- ----- ----- (\$ IN THOUSANDS)		
Computed "expected" income tax provision.....	\$12,673	\$6,286	\$1,753
Tax percentage depletion.....	(238)	(144)	(780)
Other.....	419	157	277
	----- ----- -----		
	\$12,854	\$6,299	\$1,250
	=====		

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:

	YEAR ENDED JUNE 30,		
	1996	1995	1994
	----- ----- ----- (\$ IN THOUSANDS)		
Deferred tax liabilities:			
Acquisition, exploration and development costs and related depreciation, depletion and amortization.....	\$(63,725)	\$(31,220)	\$(15,872)
	----- ----- -----		
Deferred tax assets:			
Net operating loss carryforwards.....	50,776	23,414	12,879
Percentage depletion carryforward.....	764	526	780
	----- ----- -----		
	51,540	23,940	13,659
	----- ----- -----		
Total Deferred Income Taxes.....	\$(12,185)	\$ (7,280)	\$ (2,213)
	=====		

At June 30, 1996, the Company had regular tax net operating loss carryforwards of approximately \$140 million and alternative minimum tax net operating loss carryforwards of approximately \$15 million. These loss carryforward amounts will expire during the years 2007 through 2011. The Company also had a percentage depletion carryforward of approximately \$2.3 million at June 30, 1996, 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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

the Internal Revenue Service, the Company does not believe that an Ownership Change has occurred as of June 30, 1996.

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 June 30, 1996, 1995 and 1994 the Company had accounts receivable for these costs of \$2.9 million, \$4.4 million and \$1.7 million, respectively.

During fiscal 1996, 1995 and 1994 the Company incurred legal expenses of \$347,000, \$516,000 and \$631,000, respectively, for legal services provided by the law firm of which a director is a member.

7. EMPLOYEE BENEFIT PLANS

Effective October 1, 1989, the Company established a 401(K) profit sharing plan. On December 1, 1993, the Company amended the plan and established the Chesapeake Energy Savings and Incentive Plan. On January 1, 1996 the Company amended the plan and established the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan (the "Savings and Incentive Stock Bonus Plan"). Eligible employees may make voluntary contributions to the Savings and Incentive Stock Bonus Plan which are matched by the Company up to 10% of the employees' annual salary with the Company's common stock. The amount of employee contributions is limited as specified in the Savings and Incentive Stock Bonus Plan. The Company may, at its discretion, make additional contributions to the Savings and Incentive Stock Bonus Plan. The Company contributed \$187,000, \$95,000 and \$70,000 to the Savings and Incentive Stock Bonus Plan during the fiscal years ended June 30, 1996, 1995 and 1994, respectively.

8. MAJOR CUSTOMERS

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

YEAR		AMOUNT	PERCENT OF
		(\$ IN THOUSANDS)	OIL AND GAS SALES
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%
1994	Wickford Energy Marketing, L.C.	\$ 6,190	28%
	GPM Gas Corporation	\$ 6,105	27%
	Plains Marketing and Transportation, Inc.	\$ 2,659	12%
	Texaco Exploration & Production, Inc.	\$ 2,249	10%

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

On April 9, 1996 the Company completed a public offering of 2,475,000 shares of Common Stock at a price of \$35.33 per share, resulting in net proceeds (after offering costs) to the Company of approximately \$82.1 million. On April 12, 1996, the underwriters exercised an over-allotment option to purchase an

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

additional 519,750 shares of Common Stock at a price of \$35.33 per share, resulting in additional net proceeds (after offering costs) to the Company of approximately \$17.3 million. The net proceeds from the offering were used to fund a portion of the Company's exploration and development capital expenditures and for general corporate purposes.

On March 31, 1994, the Company issued 12% Senior Notes and Warrants for 2,190,937 shares of the Company's Common Stock (see Note 2). The Warrants were valued at \$3.04 million and are recorded as Common Stock Warrants and paid-in capital on the accompanying consolidated balance sheets. A portion of the 12% Senior Notes and Warrants were issued to Trust Company of the West in exchange for preferred stock, warrants to purchase Common Stock and an overriding royalty interest.

A 1.8-for-1 stock split of the Common Stock in January 1993, a 2-for-1 stock split of the Common Stock in December 1994, and 3-for-2 stock splits of the Common Stock in December 1995 and 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 1,881,000 shares. The maximum period for exercise of an option may not be more than ten 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 may 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 1,566,000 shares. The maximum period for exercise of an option may not be more than ten 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 may be granted under the NSO Plan after December 10, 2002.

Under the Company's 1994 Stock Option Plan (the "1994 Plan"), incentive and nonqualified stock options to purchase Common Stock may be granted to employees of the Company and its subsidiaries. Subject to any adjustment as provided by the 1994 Plan, the aggregate number of shares which may be issued and sold may not exceed 2,443,455 shares. The maximum period for exercise of an option may not be more than ten 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 may be granted under the 1994 Plan after December 16, 2004.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

	# OF OPTIONS	OPTION PRICES
	-----	-----
Options outstanding at June 30, 1993.....	885,780	\$1.11- \$2.67
Options granted.....	1,640,250	\$1.11- \$1.71
Options exercised.....	--	-
Options terminated.....	(9,360)	\$1.11- \$1.33
Options outstanding at June 30, 1994.....	2,516,670	\$1.11- \$2.67
Options granted.....	1,592,775	\$4.50- \$9.84
Options exercised.....	(644,366)	\$1.11- \$2.67
Options terminated.....	(50,783)	\$1.11- \$4.50
Options outstanding at June 30, 1995.....	3,414,296	\$1.11- \$9.84
Options granted.....	1,213,425	\$11.33-\$35.33
Options exercised.....	(787,023)	\$1.11-\$35.33
Options terminated.....	(39,256)	\$1.11-\$11.33
Options outstanding at June 30, 1996.....	3,801,442	\$1.11-\$35.33

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 fiscal 1996 and 1995, \$7,950,000 and \$1,229,000 was recorded as an adjustment 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 counter-parties and to basis risk.

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 swap arrangements that establish an index-related price above which the Company pays the hedging partner and below which the Company is paid by the hedging partner, the purchase of index-related puts that provide for a "floor" price to the Company to be paid by the counter-party to the extent the price of the commodity is below the contracted floor, and basis protection swaps.

As of June 30, 1996, the Company had established NYMEX-based crude oil swap agreements for 1,000 Bbl per day for July 1, 1996 through August 31, 1996 at an average price of \$17.85 per Bbl. The counter-party has the option exercisable monthly for an additional 1,000 Bbl per day for the period July 1, 1996 through December 31, 1996 to cause a swap if the price exceeds an average \$17.74 per Bbl. The actual settlements for July and August resulted in a \$0.5 million payment to the counter-party. The Company estimates, based on NYMEX prices as of August 30, 1996, that the effect of the September through December hedges would be a \$0.4 million payment to the counter-party.

The Company has purchased Houston Ship Channel put options which guarantee the Company an average floor price of \$2.21/Mmbtu for 20,000 Mmbtu per day for the period of November 1, 1996 through February 28, 1997. The average cost of these puts was \$0.14 per Mmbtu.

As of June 30, 1996, the Company had NYMEX-based natural gas swaps and NYMEX/Houston Ship Channel Basis swaps for the months of July through October 1996. These transactions resulted in payments to

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

the Company's counter-party of approximately \$2 million for the month of July 1996 and \$1.5 million for the month of August 1996. The Company estimates, based on NYMEX prices as of August 30, 1996, that the effect of the September and October hedges would be a \$0.2 million payment to the counter-party.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of 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 not considered investment grade, unless the credit risk can otherwise be mitigated.

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. 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 June 30, 1996 and 1995 was \$255.6 million and \$135.2 million, respectively, compared to approximate fair values of \$261.2 million and \$137.8 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:

	JUNE 30,	
	1996	1995
	-----	-----
	(\$ IN THOUSANDS)	
Oil and gas properties:		
Proved.....	\$363,213	\$165,302
Unproved.....	165,441	27,474
	-----	-----
Total.....	528,654	192,776
Less accumulated depreciation, depletion and amortization.....	(92,720)	(41,821)
	-----	-----
Net capitalized costs.....	\$435,934	\$150,955
	=====	=====

Unproved properties not subject to amortization at June 30, 1996 and 1995, consist mainly of lease acquisition costs. The Company capitalized approximately \$6,428,000 and \$1,574,000 of interest during the years ended June 30, 1996 and 1995 on significant investments in unproved properties that are not being currently depreciated, depleted, or amortized and on which exploration or development activities are in progress. 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.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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:

	JUNE 30,		
	1996	1995	1994
	(\$ IN THOUSANDS)		
Development costs.....	\$143,437	\$ 81,833	\$26,277
Exploration costs.....	39,410	14,129	5,358
Acquisition costs:			
Unproved properties.....	138,188	24,437	3,305
Proved properties.....	24,560	--	--
Capitalized internal costs.....	1,699	586	965
Proceeds from sale of leasehold, equipment and other.....	(11,416)	(15,107)	(7,598)
Total.....	\$335,878	\$105,878	\$28,307

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 years ended June 30, 1996, 1995 and 1994, 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.

	JUNE 30,		
	1996	1995	1994
	(\$ IN THOUSANDS)		
Oil and gas sales.....	\$110,849	\$ 56,983	\$22,404
Production costs(a).....	(8,303)	(4,256)	(3,647)
Depletion and depreciation.....	(50,899)	(25,410)	(8,141)
Imputed income tax provision(b).....	(18,335)	(9,561)	(3,610)
Results of operations from oil and gas producing activities.....	\$ 33,312	\$ 17,756	\$ 7,006

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

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

Oil and Gas Reserve Quantities (unaudited)

The reserve information presented below is based upon reports prepared by the independent petroleum engineering firm of Williamson Petroleum Consultants, Inc. ("Williamson") as of June 30, 1996, 1995 and 1994 and the Company's petroleum engineers as of June 30, 1996 and 1995. The reserves evaluated internally by the Company constituted approximately 0.6% and 0.5% of total proved reserves as of June 30, 1996 and 1995, respectively. 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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

to similar properties and volumetric calculations. Accordingly, these estimates are expected to change, and such changes could be material, 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.

Presented below is a summary of changes in estimated reserves of the Company based upon the reports prepared by Williamson for 1996, 1995 and 1994, along with those prepared by the Company's petroleum engineers for 1996 and 1995:

	JUNE 30,					
	1996		1995		1994	
	OIL (MBBL)	GAS (MMCF)	OIL (MBBL)	GAS (MMCF)	OIL (MBBL)	GAS (MMCF)
Proved reserves, beginning of year.....	5,116	211,808	4,154	117,066	9,622	79,763
Extensions, discoveries and other additions.....	8,924	173,577	2,345	129,444	2,335	82,965
Revisions of previous estimate.....	(812)	(2,538)	(244)	(9,588)	(868)	(5,523)
Production.....	(1,413)	(51,710)	(1,139)	(25,114)	(537)	(6,927)
Sale of reserves-in-place.....	--	--	--	--	(6,398)	(33,212)
Purchase of reserves-in-place.....	443	20,087	--	--	--	--
Proved reserves, end of year.....	12,258	351,224	5,116	211,808	4,154	117,066
Proved developed reserves, end of year.....	3,648	144,721	1,973	77,764	1,313	30,445

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 \$35 million, subject to adjustment for activity after the effective date of January 1, 1996. The properties are located in the Knox and Golden Trend fields of southern Oklahoma, most of which are operated by the Company.

In October 1993, the Company entered into a joint development agreement covering a 20,000 gross acre development area in the Fayette County portion of the Giddings Field in southern Texas. The Company's ownership interests in the proved undeveloped properties covered by the joint development agreement were significantly less than those used in the June 30, 1993 reserve report. The impact of the reduced ownership percentages is reflected as sales of reserves in place in fiscal 1994 in the preceding table.

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

permanent differences and tax credits. The resulting future net cash flows are reduced to present value amounts by applying a 10% annual discount factor.

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:

	JUNE 30,		
	1996	1995	1994

	1996	1995	1994

	(\$ IN THOUSANDS)		
Future cash inflows.....	\$1,101,642	\$427,377	\$307,600
Future production costs.....	(168,974)	(75,927)	(50,765)
Future development costs.....	(137,068)	(76,543)	(47,040)
Future income tax provision.....	(173,439)	(46,537)	(36,847)

Future net cash flows.....	622,161	228,370	172,948
Less effect of a 10% discount factor.....	(171,973)	(69,359)	(54,340)

Standardized measure of discounted future net cash flows.....	\$ 450,188	\$159,011	\$118,608
	=====	=====	=====

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

	JUNE 30,		
	1996	1995	1994

	1996	1995	1994

	(\$ IN THOUSANDS)		
Standardized measure, beginning of year.....	\$ 159,011	\$118,608	\$119,744
Sales of oil and gas produced, net of production costs.....	(102,546)	(52,727)	(18,757)
Net changes in prices and production costs.....	87,736	(25,574)	(10,795)
Extensions and discoveries, net of production and development costs.....	292,255	93,969	99,175
Changes in future development costs.....	(11,201)	3,406	(2,855)
Development costs incurred during the period that reduced future development costs.....	43,409	23,678	9,855
Revisions of previous quantity estimates.....	(10,505)	(11,204)	(13,107)
Purchase of undeveloped reserves-in-place.....	29,641	--	--
Sales of reserves-in-place.....	--	--	(66,372)
Accretion of discount.....	18,814	14,126	14,166
Net change in income taxes.....	(67,705)	(6,486)	(720)
Changes in production rates and other.....	11,279	1,215	(11,726)

Standardized measure, end of year.....	\$ 450,188	\$159,011	\$118,608
	=====	=====	=====

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

12. QUARTERLY FINANCIAL DATA (unaudited)

Summarized unaudited quarterly financial data for fiscal 1996 and 1995 are as follows (\$ in thousands except per share data):

	QUARTER ENDED			
	SEPTEMBER 30, 1995	DECEMBER 31, 1995	MARCH 31, 1996	JUNE 30, 1996
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:				
Primary.....	.10	.19	.26	.23
Fully-diluted.....	.10	.19	.26	.23

	QUARTER ENDED			
	SEPTEMBER 30, 1994	DECEMBER 31, 1994	MARCH 31, 1995	JUNE 30, 1995
Net sales.....	\$13,042	\$ 14,186	\$15,788	\$ 22,803
Gross profit(a).....	4,559	5,805	4,997	7,702
Net income.....	2,336	3,248	2,305	3,772
Net income per share:				
Primary.....	.09	.12	.08	.13
Fully-diluted.....	.09	.12	.08	.13

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

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 October 28, 1996.

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 October 28, 1996.

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 October 28, 1996.

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 October 28, 1996.

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. The Financial Statements of Chesapeake Exploration Limited Partnership are included in this Item 14. Reference is made to the accompanying Index to Chesapeake Exploration Limited Partnership Financial Statements.

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. Incorporated herein by reference to Exhibit 3.1 to Registrant's quarterly report on Form 10-Q for the quarter ended December 31, 1995.
3.2	-- Registrant's Bylaws. Incorporated herein by reference to Exhibit 3.2 to Registrant's registration statement on Form S-1 (No. 33-55600).
4.1*	-- Second Amended and Restated Credit Agreement dated as of September 20, 1996, by and among Chesapeake Energy Corporation, Chesapeake Exploration Limited Partnership, an Oklahoma Limited Partnership and Union Bank of California, N.A., as agent and the lenders from time to time parties hereto.
4.2	-- Indenture dated as of March 31, 1994, as amended by First Supplemental Indenture dated May 9, 1994, Second Supplemental Indenture dated as of August 31, 1994 and Third Supplemental Indenture dated December 27, 1994, among Chesapeake Energy Corporation, its subsidiaries signatory thereto as Subsidiary Guarantors and United States Trust Company of New York, as Trustee. Incorporated herein by reference to Exhibits 4.2 and 4.2(a) to Registrant's registration statement on Form S-4 (No. 33-78218) Exhibit 4.2.1 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1994 and Exhibit 4.2.1 to Registrant's annual report on Form 10-K for the year ended June 30, 1995.
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. Incorporated herein by reference to Exhibit 4.3 to Registrant's registration statement on Form S-4 (No. 33-93718).
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. Incorporated herein by reference to Exhibit 4.6 to Registrant's registration statement on Form S-3 Registration Statement (No. 333-1588)
4.5	-- Agreement to furnish copies of unfiled long-term debt instruments. Incorporated herein by reference to Exhibit 4.3 to Registrant's annual report on Form 10-K for the year ended June 30, 1993.

EXHIBIT NUMBER -----	DESCRIPTION -----
4.7	-- Pledge Agreement dated as of March 31, 1994, as amended by First Amendment to Pledge Agreement dated as of August 31, 1994 and Second Amendment to Pledge Agreement dated as of December 27, 1994, among Chesapeake Energy Corporation, Chesapeake Operating, Inc., Lindsay Oil Field Supply, Inc. and United States Trust Company of New York. Incorporated herein by reference to Exhibit B to Indenture filed as Exhibit 4.2 to Registrant's registration statement on Form S-4 (No. 33-78218), Exhibit 4.7.1 Registrant's quarterly report on Form 10-Q for the quarter ended December 31, 1995, and to Exhibit 4.7.1 to Registrant's annual report on Form 10-K for the year ended June 30, 1995.
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).
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.
10.1.3+	-- Registrant's 1994 Stock Option Plan. Incorporated herein by reference to Exhibit 99 to Registrant's registration statement on Form S-8 (No. 33-88196).
10.2.1+	-- Employment Agreement dated as of July 1, 1995 between Aubrey K. McClendon and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.1 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1995.
10.2.2+	-- Employment Agreement dated as of July 1, 1995 between Tom L. Ward and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.2 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1995.
10.2.3+	-- Employment Agreement dated as of March 1, 1995 between Marcus C. Rowland and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.3 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1995.
10.2.4+	-- Employment Agreement dated as of July 1, 1995 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, 1995.
10.2.5+	-- Employment Agreement dated as of July 1, 1995 between J. Mark Lester and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.5 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1995.
10.2.6+	-- Employment Agreement dated as of July 1, 1995 between Henry J. Hood and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.6 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1995.
10.2.7+	-- Employment Agreement dated as of May 1, 1995 between Ronald A. Lefaiwe and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.7 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1995.
10.2.8+*	-- Employment Agreement dated as of July 1, 1995 between Martha A. Burger and Chesapeake Operating, Inc.

EXHIBIT NUMBER -----	DESCRIPTION -----
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).
11*	-- Statement re computation of per share earnings.
21	-- Subsidiaries of Registrant. Incorporated herein by reference to Exhibit 21 to Registrant's quarterly report on Form 10-Q for the quarter ended December 31, 1995.
23.1*	-- Consent of Coopers & Lybrand L.L.P.
23.2*	-- Consent of Price Waterhouse LLP
23.3*	-- Consent of Williamson Petroleum Consultants, Inc.
27*	-- Financial Data Schedule

- -----

* Filed herewith.

+ Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

During the quarter ended June 30, 1996, the Company filed a Current Report on Form 8-K dated April 30, 1996 (filed on May 15, 1996) reporting the acquisition of interest in certain producing and nonproducing oil and gas properties from Amerada Hess Corporation. Form 8-K/A was filed July 15, 1996 to add financial information to such Current Report.

INDEX TO CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP
FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT ACCOUNTANTS

To the General Partner and Limited Partner of
Chesapeake Exploration Limited Partnership

We have audited the accompanying balance sheet of Chesapeake Exploration Limited Partnership ("CEX") as of June 30, 1996, and the related consolidated statements of income, partners' capital and cash flows for the year then ended. These financial statements are the responsibility of the CEX management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CEX as of June 30, 1996, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As more fully described in Note 1, CEX is a limited partnership owned by Chesapeake Energy Corporation ("CEC") and Chesapeake Operating, Inc. ("COI"). CEX has no employees and it is dependent on the financial resources of CEC and COI as well as being dependent on management by COI. Accordingly, CEX has significant transactions with CEC and COI which are disclosed in Note 4. The financial statements of CEX should be read in conjunction with the consolidated financial statements of CEC.

COOPERS & LYBRAND L.L.P.

Oklahoma City, Oklahoma
September 13, 1996

REPORT OF INDEPENDENT ACCOUNTANTS

To the General Partner and Limited Partner of
Chesapeake Exploration Limited Partnership

In our opinion, the balance sheet and the related statements of income, of partners' capital and of cash flows as of and for each of the two years in the period ended June 30, 1995 present fairly, in all material respects, the financial position, results of operations and cash flows of Chesapeake Exploration Limited Partnership ("CEX" formerly Chesapeake Exploration Company) as of and for each of the two years in the period ended June 30, 1995, in conformity with generally accepted accounting principles. These financial statements are the responsibility of CEX's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above. We have not audited the financial statements of CEX for any period subsequent to June 30, 1995.

As more fully described in Note 1, CEX is a limited partnership owned by Chesapeake Energy Corporation ("CEC") and Chesapeake Operating, Inc. ("COI"). CEX has no employees and it is dependent on the financial resources of CEC and COI as well as being dependent on management by COI. Accordingly, CEX has significant transactions with CEC and COI which are disclosed in Note 4. The financial statements of CEX should be read in conjunction with the consolidated financial statements of CEC.

PRICE WATERHOUSE LLP

Houston, Texas
September 20, 1995

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP
(A WHOLLY-OWNED PARTNERSHIP OF CHESAPEAKE ENERGY CORPORATION)

BALANCE SHEETS

ASSETS

	JUNE 30,	
	1996	1995
	(\$ IN THOUSANDS)	
CURRENT ASSETS:		
Accounts receivable.....	\$ 14,778	\$ 9,867
Prepaid expenses.....	1,891	--
Total Current Assets.....	16,669	9,867
PROPERTY AND EQUIPMENT:		
Oil and gas properties, at cost based on full cost accounting:.....	346,821	163,521
Unevaluated properties.....	165,441	27,474
Less: accumulated depreciation, depletion and amortization.....	(84,726)	(36,959)
Total Property and Equipment.....	427,536	154,036
INTERCOMPANY RECEIVABLES:		
Chesapeake Energy Corporation.....	47,502	14,682
Chesapeake Gas Development Corporation.....	8,171	2,877
Other.....	382	--
	56,055	17,559
OTHER ASSETS.....	694	776
TOTAL ASSETS.....	\$500,954	\$182,238
	=====	=====
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Accrued Expenses.....	\$ 789	\$ 516
Total Current Liabilities.....	789	516
LONG-TERM DEBT.....	--	10
INTERCOMPANY PAYABLES:		
Lindsay Oil Field Supply.....	2,190	2,190
Chesapeake Operating, Inc.....	411,536	138,046
	413,726	140,236
CONTINGENCIES AND COMMITMENTS (Note 3).....	--	--
PARTNERS' CAPITAL:		
Contributions.....	424	424
Accumulated Earnings.....	86,015	41,052
Total Partners' Capital.....	86,439	41,476
TOTAL LIABILITIES & PARTNERS' CAPITAL.....	\$500,954	\$182,238
	=====	=====

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

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP
(A WHOLLY-OWNED PARTNERSHIP OF CHESAPEAKE ENERGY CORPORATION)

STATEMENTS OF INCOME

	YEAR ENDED JUNE 30,		
	1996	1995	1994
----- (\$ IN THOUSANDS) -----			
REVENUES:			
Oil and gas sales.....	\$103,712	\$55,417	\$22,404
Other income (expense).....	(1,473)	--	--
	-----	-----	-----
Total Revenues.....	102,239	55,417	22,404
	-----	-----	-----
COSTS AND EXPENSES:			
Production expenses and taxes.....	7,225	3,494	3,185
Oil and gas depreciation, depletion and amortization.....	48,333	24,769	8,141
General and administrative.....	1,090	931	823
Amortization.....	258	138	171
Interest.....	370	352	507
	-----	-----	-----
Total Costs and Expenses.....	57,276	29,684	12,827
	-----	-----	-----
NET INCOME.....	\$ 44,963	\$25,733	\$ 9,577
	=====	=====	=====

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

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP
(A WHOLLY-OWNED PARTNERSHIP OF CHESAPEAKE ENERGY CORPORATION)

STATEMENTS OF PARTNERS' CAPITAL

	CEC	COI	TOTAL
	-----	-----	-----
	(\$ IN THOUSANDS)		
Balance at June 30, 1993.....	\$ 5,549	\$ 617	\$ 6,166
1994 Net Income.....	8,619	958	9,577
	-----	-----	-----
Balance at June 30, 1994.....	\$14,168	\$1,575	\$15,743
1995 Net Income.....	23,160	2,573	25,733
	-----	-----	-----
Balance at June 30, 1995.....	\$37,328	\$4,148	\$41,476
1996 Net Income.....	40,467	4,496	44,963
	-----	-----	-----
Balance at June 30, 1996.....	\$77,795	\$8,644	\$86,439
	=====	=====	=====

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

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP
(A WHOLLY-OWNED PARTNERSHIP OF CHESAPEAKE ENERGY CORPORATION)

STATEMENTS OF CASH FLOWS

	YEAR ENDED JUNE 30,		
	1996	1995	1994
	(\$ IN THOUSANDS)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
NET INCOME.....	\$ 44,963	\$ 25,733	\$ 9,577
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Oil and gas depreciation, depletion and amortization...	48,333	24,769	8,141
Amortization.....	258	138	171
General and administrative -- Allocated.....	1,090	931	814
CHANGES IN ASSETS AND LIABILITIES:			
Increase (decrease) in assets/liabilities.....	(3,358)	(4,818)	(5,572)
Cash provided by operating activities.....	91,286	46,753	13,131
CASH FLOWS FROM INVESTING ACTIVITIES:			
Development and acquisition of oil and gas properties.....	(329,507)	(111,980)	(33,466)
Proceeds from leasehold sales.....	2,158	5,079	3,268
Sale of producing properties.....	5,300	11,500	--
Other.....	(177)	--	(159)
Cash used in investing activities.....	(322,226)	(95,401)	(30,357)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term borrowings.....	39,000	28,433	--
Payments on long-term borrowings.....	(44,010)	(28,433)	(10,201)
Intercompany advances.....	415,270	144,596	42,496
Intercompany payments.....	(179,320)	(95,948)	(15,246)
Cash provided by financing activities.....	230,940	48,648	17,049
Net (decrease) increase in cash and cash equivalents.....	--	--	(177)
Cash and cash equivalents, beginning of period.....	--	--	177
Cash and cash equivalents, end of period.....	\$ --	\$ --	\$ --
CASH INTEREST PAID.....	\$ 563	\$ 453	\$ 507

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

During the three years ended June 30, 1996, CEX had non-cash intercompany transactions with the Company consisting primarily of allocated general and administrative expenses. In fiscal 1996 and 1995, the difference between the net book value and the proceeds from the sale of oil and gas properties sold to CGDC of \$782,000 and \$2,852,000, respectively, resulted in a non-cash transfer.

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

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP
(A WHOLLY-OWNED PARTNERSHIP OF CHESAPEAKE ENERGY CORPORATION)

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Chesapeake Exploration Limited Partnership, an Oklahoma limited partnership ("CEX"), was formed on December 27, 1994 and acquired Chesapeake Exploration Company ("Exploration") by merger on such date. Exploration was a general partnership which was 10% owned by Chesapeake Operating, Inc. ("COI") and 90% owned by Chesapeake Energy Corporation ("CEC" or the "Company"). CEC owns 100% of the Common Stock of COI. CEX is 10% owned by COI as the sole general partner, and 90% owned directly by the Company, as the sole limited partner.

Effective December 31, 1994, COI transferred to CEX all of the Company's undeveloped leasehold acreage, thereby formalizing their prior economic arrangement. Historically, COI had transferred undeveloped leasehold acreage to CEX on a property-by-property basis as drilling commenced. CEX also owns substantially all of the Company's proved developed oil and gas properties. Accordingly, the financial statements of CEX include costs related to proved undeveloped properties and unevaluated properties, as well as proved producing properties. The change in partnership structure and the transfer of undeveloped leasehold by COI to CEX have been accounted for as a reorganization of entities under common control in a manner similar to a pooling-of-interests.

The CEX financial statements were prepared on a separate entity basis as reflected in the Company's books and records and include all material costs of doing business as if the partnership were on a stand-alone basis, except that interest is not charged on intercompany accounts, or allocated.

Capital is provided by advances from CEC and COI, and to a lesser extent directly by CEX's bank credit facilities.

These financial statements should be read in conjunction with CEC's consolidated financial statements.

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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Oil and Gas Properties

CEC, and therefore CEX, follows the full cost method of accounting under which all costs associated with property acquisition, exploration and development activities are capitalized. CEX capitalizes internal costs that can be directly identified with its acquisition, exploration and development activities. Such costs do not include any costs related to production, general corporate overhead or similar activities (see Note 7). Capitalized costs are amortized on a composite unit-of-production method based on proved oil and gas reserves. CEX's oil and gas reserves are estimated annually by independent petroleum engineers. The average composite rates used for depreciation, depletion and amortization were \$.85, \$.80 and \$.80 per equivalent Mcf in 1996, 1995 and 1994, 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. Unamortized costs, as reduced by related deferred taxes, are subject to a ceiling which limits such amounts to the estimated present value of oil and gas reserves, reduced by operating expenses, future development costs and income taxes. The costs of unproved properties are excluded from amortization until the properties are evaluated.

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP
(A WHOLLY-OWNED PARTNERSHIP OF CHESAPEAKE ENERGY CORPORATION)

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

On April 30, 1996, CEX 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 \$35 million, subject to adjustment for activity after the effective date of January 1, 1996. The properties are located in the Knox and Golden Trend fields of southern Oklahoma, most of which are operated by the Company.

Capitalized Interest

During fiscal 1996, 1995 and 1994, interest of approximately \$6,428,000, \$1,574,000 and \$356,000 was capitalized on significant investments in unproved properties that are not being currently depreciated, depleted, or amortized and on which exploration or development activities are in progress.

Intercompany Transactions

COI, as operator of the majority of CEX's producing properties, bills CEX, as non-operator, on a monthly basis for services performed as operator pursuant to a standard operating agreement which is common in the industry. Expenses related to the operations of CEX are recorded via such joint interest billings and via intercompany expense allocations to CEX by COI. CEX has no employees. In the CEC consolidated group, COI employs all management personnel and employees, except for employees of the service company subsidiaries, and the preponderance of general and administrative expenses are reflected in the financial records of COI. COI allocates a portion of its general and administrative expenses to CEX each period. This allocation is based on a per well charge at a rate common in the industry plus an estimate of time spent on CEX activities by officers and employees of COI.

CEC makes advances to CEX as needed. Certain of CEC's service subsidiaries perform contractual services on CEX's wells for third parties. These subsidiaries bill COI, as operator, and COI in turn bills CEX through monthly joint interest billings in accordance with the terms of the standard operating agreement.

It is CEC's policy not to demand payment of intercompany accounts. Interest is not allocated by the Company, nor is interest charged on intercompany accounts. CEC may, at its discretion, but it is not required to, contribute intercompany accounts to capital.

Income Taxes

CEX is a partnership and, accordingly, its taxable income or loss is allocated to the limited partner and the general partner and is ultimately included in CEC's consolidated tax returns.

Gas Imbalances

CEX follows the "sales method" of accounting for its oil and gas revenue whereby CEX recognizes sales revenue on all oil or gas sold to its purchasers, regardless of whether the sales are proportionate to CEX's ownership in the property. A liability is recognized only to the extent that CEX has a net imbalance in excess of the reserves on the underlying properties. CEX's net imbalance positions at June 30, 1996 and 1995 were not material.

Hedging

The Company, on behalf of CEX, 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 CEX's oil and gas production.

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP
(A WHOLLY-OWNED PARTNERSHIP OF CHESAPEAKE ENERGY CORPORATION)

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Reclassifications

Certain reclassifications have been made to the CEX financial statements for the years ended June 30, 1995 and 1994 to conform to the presentation used for the June 30, 1996 financial statements.

2. LONG-TERM DEBT

In April 1993, CEX entered into an oil and gas reserve-based reducing revolving credit facility (the "Revolving Credit Facility") with Union Bank. The Revolving Credit Facility has been amended from time to time, most recently in September 1996. Concurrent with the September 1996 amendment, CEX increased the facility size to \$125 million and expanded its bank group with Union Bank remaining as agent.

The maturity date of the Revolving Credit Facility is April 30, 2001. The facility provides for interest at the Union Bank reference rate (8.25% at June 30, 1996) or, at the option of CEX the Eurodollar rate plus 1.375% to 1.875% depending on the ratio of the amount outstanding to the borrowing base. Borrowings are collateralized by a first priority lien on substantially all of CEX's proved producing reserves, and are unconditionally guaranteed by the Company. At June 30, 1996 and 1995 there was \$0 and \$10,000 outstanding under the Revolving Credit Facility, respectively.

The amount of credit available at any time under the Revolving Credit Facility is the lesser of the commitment amount or the borrowing base. The borrowing base is reduced each month by a specified amount. Both the borrowing base and the monthly reduction amount are redetermined by Union Bank each May 1 and November 1 and may be redetermined at any other time upon the request of CEX or Union Bank. To the extent the amount outstanding at any time exceeds the borrowing base, CEX must reduce the amount outstanding or add additional collateral. At June 30, 1996, the commitment amount and the borrowing base under the Revolving Credit Facility were \$35 million, and the monthly reduction amount was \$700,000. The Revolving Credit Facility was amended in September 1996 to provide for a borrowing base and a commitment amount of \$75 million, with a monthly reduction amount of \$1,750,000. The Revolving Credit Facility contains customary financial covenants, limitations on indebtedness and liabilities, liens, prepayments of other indebtedness and loans, investments and guarantees by the Company and prohibits the payment of dividends on the Company's Common Stock.

3. CONTINGENCIES AND COMMITMENTS

CEX has fully and unconditionally guaranteed CEC's obligations under the \$47.5 million principal amount of 12% Senior Notes due 2001, issued March 31, 1994, the \$90 million principal amount of 10.5% Senior Notes due 2002, issued May 25, 1995, and the \$120 million principal amount of 9.125% Senior Notes due 2006, issued April 9, 1996. In addition, the CEX partnership interests have been pledged as collateral under the 12% Senior Notes.

4. RELATED PARTY TRANSACTIONS

CEX has significant transactions with COI, CEC, CGDC and other affiliated companies included in the CEC consolidated group, including:

COI as operator for CEX:

- (a) acquires oil and gas properties,
 - (b) drills and equips wells,
 - (c) operates the majority of CEX's wells,
 - (d) sells interests in proved undeveloped properties to third parties,
- and

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NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

(e) contracts services from affiliated entities in the CEC consolidated group and from third parties on behalf of CEX.

Capitalized costs associated with these transactions are reflected in the balance sheet as oil and gas properties and unevaluated properties for each period presented. Production expenses and taxes included in the statement of operations for each of the periods presented reflect expenses billed by COI to CEX for operations. Allocated general and administrative expenses reflect amounts allocated to CEX by COI.

The Company makes periodic advances (and contributions) to CEX.

The transactions included in the following intercompany balances are summarized as follows:

	COI	CEC	CGDC	OTHER SUBSIDIARIES
	-----	-----	-----	-----
	(\$ IN THOUSANDS)			
BALANCE AT JUNE 30, 1993.....	\$ (34,593)	\$(14,047)	\$ --	\$ 1,033
	=====	=====	=====	=====
Joint Interest Billing.....	\$ (31,925)	\$ (553)	\$ --	\$ --
Cash Collected for CEX.....	15,118	--	--	--
Debt Payments.....	(10,135)	(573)	--	--
Other.....	(123)	124	--	--
	-----	-----	-----	-----
BALANCE AT JUNE 30, 1994.....	\$ (61,658)	\$(15,049)	\$ --	\$ 1,033
	=====	=====	=====	=====
Joint Interest Billing.....	\$(131,018)	\$ (30)	\$ --	\$ --
Cash Collected for CEX.....	55,889	39,758	--	--
Debt Payments.....	(23)	(9,933)	--	--
Transfer of Properties to CGDC.....	--	--	2,852	--
Other.....	(1,236)	(64)	25	(3,223)
	-----	-----	-----	-----
BALANCE AT JUNE 30, 1995.....	\$ (138,046)	\$ 14,682	\$ 2,877	\$ (2,190)
	=====	=====	=====	=====
Joint Interest Billing.....	\$(140,928)	\$ --	\$ --	\$ --
Cash Collected for CEX.....	40,392	44,000	--	--
Debt Payments.....	--	(5,848)	--	--
Transfer of Properties to CGDC.....	--	--	5,515	--
Acquisition of properties.....	(162,748)	--	--	--
Other.....	(10,206)	(5,332)	(221)	382
	-----	-----	-----	-----
BALANCE AT JUNE 30, 1996.....	\$(411,536)	\$ 47,502	\$ 8,171	\$ (1,808)
	=====	=====	=====	=====

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP
(A WHOLLY-OWNED PARTNERSHIP OF CHESAPEAKE ENERGY CORPORATION)

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

5. MAJOR CUSTOMERS

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

YEAR		AMOUNTS	PERCENT OF
		----- (\$ IN THOUSANDS)	OIL AND GAS SALES -----
1996	Aquila Southwest Pipeline Corporation	\$ 41,900	40%
	GPM Gas Corporation	\$ 28,700	28%
	Wickford Energy Marketing, L.C.	\$ 18,500	18%
1995	Aquila Southwest Pipeline Corporation	\$ 18,548	33%
	Wickford Energy Marketing, L.C.	\$ 15,704	28%
	GPM Gas Corporation	\$ 11,686	21%
1994	Wickford Energy Marketing, L.C.	\$ 6,190	28%
	GPM Gas Corporation	\$ 6,105	27%
	Plains Marketing and Transportation, Inc.	\$ 2,659	12%
	Texaco Exploration & Production, Inc.	\$ 2,249	10%

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

6. FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company, on behalf of CEX, 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 counter-parties and to basis risk.

Hedging Activities

Periodically the Company, on behalf of CEX, utilizes hedging strategies to hedge the price of a portion of its future oil and gas production. These strategies include swap arrangements that establish an index-related price above which the Company pays the hedging partner and below which the Company is paid by the hedging partner, the purchase of index-related puts that provide for a "floor" price to the Company to be paid by the counter-party to the extent the price of the commodity is below the contracted floor, and basis protection swaps.

As of June 30, 1996, the Company had NYMEX-based crude oil swap agreements for 1,000 Bbl per day for July 1, 1996 through August 31, 1996 at an average price of \$17.85 per Bbl. The counter-party has the option exercisable monthly for an additional 1,000 Bbl per day for the period July 1, 1996 through December 31, 1996 to cause a swap if the price exceeds an average \$17.74 per Bbl. The actual settlements for July and August resulted in a \$0.5 million payment to the counter-party. The Company estimates, based on NYMEX prices as of August 30, 1996 that the effect of the September through December hedges would be a \$0.4 million payment to the counter-party.

The Company has purchased Houston Ship Channel put options which guarantee the Company an average floor price of \$2.21/Mmbtu for 20,000 Mmbtu per day for the period of November 1, 1996 through February 28, 1997. The average cost of these puts was \$0.14 per Mmbtu.

As of June 30, 1996, the Company had NYMEX-based natural gas swaps and NYMEX/Houston Ship Channel Basis swaps for the months of July through October 1996. These transactions resulted in payments to

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NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

the Company's counter-party of approximately \$2 million for the month of July 1996 and \$1.5 million for the month of August 1996. The Company estimates, based on NYMEX prices as of August 30, 1996, that the effect of the September and October hedges would be a \$0.2 million payment to the counter-party.

Concentration of Credit Risk

Financial instruments which potentially subject CEX to concentrations of credit risk consist principally of trade receivables. CEX'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 CEX'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 not considered investment grade, unless the credit risk can otherwise be mitigated.

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. Based on the borrowing rates currently available to CEX for bank loans with similar terms and average maturities, the fair value of long-term debt approximates the carrying value.

7. DISCLOSURES ABOUT OIL AND GAS PRODUCING ACTIVITIES

Net Capitalized Costs

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

	JUNE 30,	
	1996	1995
	(\$ IN THOUSANDS)	
Oil and gas properties:		
Proved.....	\$346,821	\$163,521
Unproved.....	165,441	27,474

Total.....	512,262	190,995
Less accumulated depreciation, depletion and amortization.....	(84,726)	(36,959)

Net capitalized costs.....	\$427,536	\$154,036
	=====	=====

Unproved properties not subject to amortization at June 30, 1996 and 1995, consist mainly of lease acquisition costs. CEX capitalized approximately \$6,428,000 and \$1,574,000 of interest during the years ended June 30, 1996 and 1995 on significant investments in unproved properties that are not being currently depreciated, depleted, or amortized and on which exploration or development activities are in progress. CEX will continue to evaluate its unevaluated properties; however, the timing of the ultimate evaluation and disposition of the properties has not been determined.

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP
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NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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:

	JUNE 30,		
	1996	1995	1994

	(\$ IN THOUSANDS)		
Development costs.....	\$129,445	70,562	24,803
Exploration costs.....	36,532	14,129	5,358
Acquisition costs:			
Unproved properties.....	138,188	24,437	3,305
Proved properties.....	24,560	--	--
Sale of producing properties.....	(5,300)	(11,500)	--
Proceeds from sale of leasehold.....	(2,158)	(5,079)	(3,268)

Total.....	\$321,267	\$ 92,549	\$30,198
	=====		

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

CEX's results of operations from oil and gas producing activities are presented below for the years ended June 30, 1996, 1995 and 1994, respectively. The following table includes revenues and expenses associated directly with CEX's oil and gas producing activities. It does not include any allocation of CEC's interest costs and, therefore, is not necessarily indicative of the contribution to consolidated net operating results of CEX's oil and gas operations.

	JUNE 30,		
	1996	1995	1994

	(\$ IN THOUSANDS)		
Oil and gas sales.....	\$103,712	\$ 55,417	\$22,404
Production costs(a).....	(7,225)	(3,494)	(3,185)
Depletion and depreciation.....	(48,333)	(24,769)	(8,141)

Results of operations from oil and gas producing activities.....	\$ 48,154	\$ 27,154	\$11,078
	=====		

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

Oil and Gas Reserve Quantities (Unaudited)

The reserve information presented below is based upon reports prepared by the independent petroleum engineering firm of Williamson Petroleum Consultants, Inc. ("Williamson") as of June 30, 1996, June 30, 1995 and June 30, 1994 and the Company's petroleum engineers as of June 30, 1996 and 1995. The reserves evaluated by the Company's petroleum engineers constituted approximately 0.6% and 0.5% of total proved reserves as of June 30, 1996 and 1995, respectively. The information is presented in accordance with regulations prescribed by the Securities and Exchange Commission. CEX emphasizes that reserve estimates are inherently imprecise. CEX'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, 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

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NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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.

Presented below is a summary of changes in estimated reserves of CEX based upon the reports prepared by Williamson for 1996, 1995 and 1994 along with those prepared by the Company's petroleum engineers for 1996 and 1995.

	JUNE 30,					
	1996		1995		1994	
	OIL (MBBL)	GAS (MMCF)	OIL (MBBL)	GAS (MMCF)	OIL (MBBL)	GAS (MMCF)
Proved reserves, beginning of year....	4,848	199,526	4,154	117,066	9,622	79,763
Extensions, discoveries and other additions.....	8,924	173,576	2,345	129,444	2,335	82,965
Revisions of previous estimate.....	(895)	(2,589)	(243)	(9,587)	(868)	(5,523)
Production.....	(1,304)	(49,320)	(1,006)	(22,723)	(537)	(6,927)
Sale of reserves-in-place.....	(74)	(6,359)	(402)	(14,674)	(6,398)	(33,212)
Purchase of reserves-in-place.....	443	20,087	--	--	--	--
Proved reserves, end of year.....	11,942	334,921	4,848	199,526	4,154	117,066
Proved developed reserves, end of year.....	3,214	126,590	1,705	65,481	1,313	30,445

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 \$35 million, subject to adjustment for activity after the effective date of January 1, 1996. The properties are located in the Knox and Golden Trend fields of southern Oklahoma, most of which are operated by the Company.

In October 1993, CEX entered into a joint development agreement covering a 20,000 gross acre development area in the Fayette County portion of the Giddings Field in southern Texas. CEX's ownership interests in the proved undeveloped properties covered by the joint development agreement were significantly less than those used in the June 30, 1993 reserve report. The impact of the reduced ownership percentages is reflected as sales of reserves in place in fiscal 1994 in the preceding table.

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. CEX 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 income tax effect of these future cash inflows will be recognized by CEX's partners. The resulting future net cash flows are reduced to present value amounts by applying a 10% annual discount factor.

The assumptions used to compute the standardized measure are those prescribed by the Financial Accounting Standards Board and, as such, do not necessarily reflect CEX's expectations of actual revenue to

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NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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 CEX's future net cash flows relating to proved oil and gas reserves based on the standardized measure prescribed in SFAS 69:

	JUNE 30,		
	1996	1995	1994
----- (\$ IN THOUSANDS) -----			
Future cash inflows.....	\$1,055,631	\$402,027	\$307,600
Future production costs.....	(161,223)	(70,558)	(50,765)
Future development costs.....	(136,927)	(76,542)	(47,040)
Future income tax provision.....	(163,374)	(42,519)	(36,847)
	-----	-----	-----
Future net cash flows.....	594,107	212,408	172,948
Less effect of a 10% discount factor.....	(160,659)	(63,496)	(54,340)
	-----	-----	-----
Standardized measure of discounted future net cash flows.....	\$ 433,448	\$148,912	\$118,608
	=====	=====	=====

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

	JUNE 30,		
	1996	1995	1994
----- (\$ IN THOUSANDS) -----			
Standardized measure, beginning of year.....	\$148,912	\$118,608	\$119,744
Sales of oil and gas produced, net of production costs.....	(96,408)	(51,923)	(18,757)
Net changes in prices and production costs.....	78,501	(32,623)	(10,795)
Extensions and discoveries, net of production and development costs.....	292,255	93,969	99,175
Changes in future development costs.....	(11,084)	3,406	(2,855)
Development costs incurred during the period that reduced future development costs.....	43,409	23,678	9,855
Revisions of previous quantity estimates.....	(11,338)	(11,286)	(13,107)
Purchase of undeveloped reserves-in-place.....	29,641	--	--
Sales of reserves in-place.....	(5,835)	(7,514)	(66,372)
Accretion of discount.....	17,550	14,125	14,166
Net change in income taxes.....	(65,117)	(3,944)	(720)
Changes in production rates and other.....	12,962	2,416	(11,726)
	-----	-----	-----
Standardized measure, end of year.....	\$433,448	\$148,912	\$118,608
	=====	=====	=====

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

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)	September 30, 1996
/s/ TOM L. WARD ----- Tom L. Ward	President, Chief Operating Officer and Director (Principal Executive Officer)	September 30, 1996
/s/ MARCUS C. ROWLAND ----- Marcus C. Rowland	Vice President -- Finance and Chief Financial Officer (Principal Financial Officer)	September 30, 1996
/s/ RONALD A. LEFAIVE ----- Ronald A. Lefaive	Controller (Principal Accounting Officer)	September 30, 1996
/s/ EDGAR F. HEIZER, JR. ----- Edgar F. Heizer, Jr.	Director	September 30, 1996
/s/ BREENE M. KERR ----- Breene M. Kerr	Director	September 30, 1996
/s/ SHANNON T. SELF ----- Shannon T. Self	Director	September 30, 1996
/s/ FREDERICK B. WHITTEMORE ----- Frederick B. Whittemore	Director	September 30, 1996
/s/ WALTER C. WILSON ----- Walter C. Wilson	Director	September 30, 1996

INDEX TO EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----	SEQUENTIAL PAGE NO. -----
3.1	-- Registrant's Certificate of Incorporation. Incorporated herein by reference to Exhibit 3.1 to Registrant's quarterly report on Form 10-Q for the quarter ended December 31, 1995.	
3.2	-- Registrant's Bylaws. Incorporated herein by reference to Exhibit 3.2 to Registrant's registration statement on Form S-1 (No. 33-55600).	
4.1*	-- Second Amended and Restated Credit Agreement dated as of September 20, 1996, by and among Chesapeake Energy Corporation, Chesapeake Exploration Limited Partnership, an Oklahoma Limited Partnership and Union Bank of California, N.A., as agent and the lenders from time to time parties hereto.	
4.2	-- Indenture dated as of March 31, 1994, as amended by First Supplemental Indenture dated May 9, 1994, Second Supplemental Indenture dated as of August 31, 1994 and Third Supplemental Indenture dated December 27, 1994, among Chesapeake Energy Corporation, its subsidiaries signatory thereto as Subsidiary Guarantors and United States Trust Company of New York, as Trustee. Incorporated herein by reference to Exhibits 4.2 and 4.2(a) to Registrant's registration statement on Form S-4 (No. 33-78218) Exhibit 4.2.1 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1994 and Exhibit 4.2.1 to Registrant's annual report on Form 10-K for the year ended June 30, 1995.	
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. Incorporated herein by reference to Exhibit 4.3 to Registrant's registration statement on Form S-4 (No. 33-93718).	
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. Incorporated herein by reference to Exhibit 4.6 to Registrant's registration statement on Form S-3 Registration Statement (No. 333-1588)	
4.5	-- Agreement to furnish copies of unfiled long-term debt instruments. Incorporated herein by reference to Exhibit 4.3 to Registrant's annual report on Form 10-K for the year ended June 30, 1993.	
4.7	-- Pledge Agreement dated as of March 31, 1994, as amended by First Amendment to Pledge Agreement dated as of August 31, 1994 and Second Amendment to Pledge Agreement dated as of December 27, 1994, among Chesapeake Energy Corporation, Chesapeake Operating, Inc., Lindsay Oil Field Supply, Inc. and United States Trust Company of New York. Incorporated herein by reference to Exhibit B to Indenture filed as Exhibit 4.2 to Registrant's registration statement on Form S-4 (No. 33-78218), Exhibit 4.7.1 Registrant's quarterly report on Form 10-Q for the quarter ended December 31, 1995, and to Exhibit 4.7.1 to Registrant's annual report on Form 10-K for the year ended June 30, 1995.	
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).	
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.	

EXHIBIT NUMBER -----	DESCRIPTION -----	SEQUENTIAL PAGE NO. -----
10.1.3+	-- Registrant's 1994 Stock Option Plan. Incorporated herein by reference to Exhibit 99 to Registrant's registration statement on Form S-8 (No. 33-88196).	
10.2.1+	-- Employment Agreement dated as of July 1, 1995 between Aubrey K. McClendon and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.1 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1995.	
10.2.2+	-- Employment Agreement dated as of July 1, 1995 between Tom L. Ward and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.2 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1995.	
10.2.3+	-- Employment Agreement dated as of March 1, 1995 between Marcus C. Rowland and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.3 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1995.	
10.2.4+	-- Employment Agreement dated as of July 1, 1995 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, 1995.	
10.2.5+	-- Employment Agreement dated as of July 1, 1995 between J. Mark Lester and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.5 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1995.	
10.2.6+	-- Employment Agreement dated as of July 1, 1995 between Henry J. Hood and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.6 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1995.	
10.2.7+	-- Employment Agreement dated as of May 1, 1995 between Ronald A. Lefaive and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.7 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1995.	
10.2.8+*	-- Employment Agreement dated as of July 1, 1995 between Martha A. Burger and Chesapeake Operating, Inc.	
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).	
11*	-- Statement re computation of per share earnings.	

EXHIBIT NUMBER	DESCRIPTION	SEQUENTIAL PAGE NO.
21	-- Subsidiaries of Registrant. Incorporated herein by reference to Exhibit 21 to Registrant's quarterly report on Form 10-Q for the quarter ended December 31, 1995.	
23.1*	-- Consent of Coopers & Lybrand L.L.P.	
23.2*	-- Consent of Price Waterhouse LLP	
23.3*	-- Consent of Williamson Petroleum Consultants, Inc.	
27*	-- Financial Data Schedule	

* Filed herewith.

+ Management contract or compensatory plan or arrangement.

SECOND AMENDED AND RESTATED CREDIT AGREEMENT

BY AND AMONG

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP,

CHESAPEAKE ENERGY CORPORATION

and

UNION BANK OF CALIFORNIA, N.A.,

As Agent

and THE LENDERS

FROM TIME TO TIME PARTIES HERETO

DATED AS OF SEPTEMBER 20, 1996

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- Exhibit N - Assignment and Acceptance
- Exhibit O - Agreement to be Bound

SECOND AMENDED AND RESTATED CREDIT AGREEMENT

This Second Amended and Restated Credit Agreement (this "Agreement") is entered into as of September 20, 1996, among Chesapeake Exploration Limited Partnership, an Oklahoma limited partnership (the "Borrower"), Chesapeake Energy Corporation, a Delaware corporation ("CEC"), Union Bank of California, N.A. (individually, "Union Bank" and as agent for Lenders, "Agent") and the Lenders referred to below.

W I T N E S S E T H:

WHEREAS, Borrower, CEC as guarantor and Union Bank entered into that certain Amended and Restated Credit Agreement dated as of March 22, 1994, as amended by that certain First Amendment to Amended and Restated Credit Agreement dated as of December 27, 1994, that certain Second Amendment to Amended and Restated Credit Agreement dated as of May 25, 1995, that certain Third Amendment to Amended and Restated Credit Agreement dated as of February 5, 1996, that certain Agreement dated as of March 7, 1996, that certain Agreement dated as of March 8, 1996, that certain Agreement dated as of March 27, 1996, and that certain Fourth Amendment to Amended and Restated Credit Agreement dated as of April 2, 1996 (as so amended, the "Original Agreement") for the purposes and consideration therein expressed, pursuant to which Union Bank became obligated to make loans to Borrower as therein provided; and

WHEREAS, Borrower has requested, and Agent and Lenders have agreed, to amend and restate the Original Agreement in its entirety;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and in the Original Agreement, in consideration of the loans which may hereafter be made by Lenders to Borrower, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE ONE

DEFINITIONAL PROVISIONS

1.01. Specific Definitions of Terms. For purposes of this Agreement, unless the context otherwise requires, the following terms shall have the respective meanings assigned to them in this Article One or in the Section or recital referred to below:

"Adjusted Base Rate" has the meaning given it in Section 3.03(b).

"Adjusted Fixed Rate" has the meaning given it in Section 3.03(c).

"Advance" means the disbursement by a Lender of a sum or sums loaned pursuant to this Agreement.

"Affiliate" means any Person which, directly or indirectly, controls, is controlled by or is under common control with the relevant Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean a member of the board of directors, a partner or an officer of such Person, or any other Person with possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, through the ownership (of record, beneficially, as trustee or by proxy) of Voting Shares, through a management contract, or otherwise. Any Person owning or controlling directly or indirectly 5% or more of the Voting Shares, or other equity interests of another Person shall be deemed to be an Affiliate of such Person.

"Agent" means Union Bank, as Agent hereunder, and its successors in such capacity.

"Agreement" means this Agreement as the same may be amended, modified, increased, supplemented and/or restated from time to time hereafter.

"Annual Reserve Report" has the meaning set forth in Section 6.01(f).

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

"Applicable Margin" means (i) with respect to the Base Rate Portion of the Loans, zero and (ii) with respect to the Fixed Rate Portion of the Loans, (A) one and three-eighths of one percent (1.375%) per annum, if the Borrowing Base Ratio in effect on the date of determination is less than 50%, (B) one and five-eighths of one percent (1.625%) per annum, if the Borrowing Base Ratio in effect on the date of determination is equal to or greater than 50% but less than 75%, and (C) one and seven-eighths of one percent (1.875%) per annum, if the Borrowing Base Ratio in effect on the date of determination is equal to or greater than 75%.

"Base Rate" means, as of any particular date, the greater of (i) the Reference Rate per annum in effect on such day, and (ii) the Federal Funds Rate plus one-half of one percent (.50%) per annum. 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. "Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by The Federal Reserve Bank of Dallas, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three federal funds brokers of recognized standing selected by it. "Reference Rate" means the variable rate of interest per annum established from time to time by Agent as its "reference rate" (which rate of interest may not be the lowest rate charged on similar loans).

"Base Rate Portion" means that portion of the unpaid principal balance of the Loans which is not made up of Fixed Rate Portions.

"Borrower" means Chesapeake Exploration Limited Partnership, an Oklahoma limited partnership, whose general partner is Chesapeake Operating Inc., an Oklahoma corporation.

"Borrowing Base", at any time, means the remainder of (i) the Borrowing Base as determined in Section 3.06(b), minus (ii) the sum of all Reductions since the last Redetermination Date. The initial Borrowing Base shall be as set forth in Section 3.06(a).

"Borrowing Base Ratio" means the percentage determined on a daily basis by dividing (a) the unpaid aggregate principal amount of the Loans at the end of such day by (b) the Borrowing Base at the end of such day.

"Business Day" means every day upon which commercial banks are open for business in Dallas, Texas and Los Angeles, California. Any Business Day in any way relating to Fixed Rate Portions (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.

"CEC" means Chesapeake Energy Corporation, a Delaware corporation.

"Chief Executive Officer" means the chief executive officer of CEC unless stated otherwise.

"Chief Financial Officer" means the chief financial officer of CEC unless stated otherwise.

"Clearing Account" means the account to be established by Borrower with the Agent as set forth in Section 6.17.

"Closing Date" means the date the initial Advances under the Revolving Loans are made.

"Collateral" means all present and future tangible or intangible property or rights in which the Lenders (or the Agent for the benefit of Lenders) are to be granted a security interest (whether perfected or enforceable or not), including without limitation the items set forth in Section 4.01(j), together with any other collateral now or hereafter securing payment of all or any part of the Obligations.

"Companies" means CEC, Borrower and all other present and future Subsidiaries of CEC (except, however, Chesapeake Gas Development Corporation and Chesapeake Energy Marketing, Inc.).

"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.

"Contested Claim" means any Tax, Indebtedness or other claim or liability, (i) the validity or amount of which is being contested by appropriate proceedings, (ii) for which adequate reserves, as required by GAAP, have been established and (iii) with respect to which any right to execute upon or sell any assets of Borrower has not matured or has been and continues to be effectively enjoined, superseded or stayed.

"Controlled Group" means (i) a controlled group of corporations as defined in Section 1563(a) of the Internal Revenue Code or (ii) a group of trades or businesses under common control, as defined in Section 414(c) of the Internal Revenue Code, of which Borrower is a part or becomes a part.

"Conversion" has the meaning stated in Section 2.07.

"Debtor Laws" means all applicable liquidation, conservatorship, bankruptcy, moratorium, arrangement, receivership, insolvency, reorganization or similar Laws or general equitable principles from time to time in effect affecting the Rights of creditors generally.

"Default" means any of the events specified in Section 8.01, regardless of whether there shall have occurred any passage of time or giving of notice or both that would be necessary in order to constitute such event an Event of Default.

"Default Rate" means at the time in question the lesser of (i) five percent (5.0%) per annum plus the Base Rate then in effect or (ii) the Highest Lawful Rate; provided that, with respect to any Fixed Rate Portion with an Interest Period extending beyond the date such Fixed Rate Portion becomes due and payable, "Default Rate" shall mean the lesser of (i) five percent (5.0%) per annum plus the related Fixed Rate or (ii) the Highest Lawful Rate.

"Dividends" means, in respect of any corporation, cash distributions or any other distributions on, or in respect of, any shares of capital stock of such corporation, except for distributions made solely in shares of stock of the same class and, in respect of any partnership, cash distributions or any other distributions on, or in respect of, any partnership interest in such partnership.

"Dollars" and the sign "\$" refer to currency of the United States of America.

"Domestic Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Domestic Lending Office" below its name on Schedule 1 hereto, or such other office as such Lender may from time to time specify to Borrower and Agent.

"Environmental Laws" means (i) the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C.A. Section 9601 et seq., (ii) the Resource Conservation and Recovery Act, as amended by the Hazardous and Solid Waste Amendment of 1984, 42 U.S.C.A. Section 6901 et seq., (iii) the Clean Air Act, 42 U.S.C.A. Section 7401 et seq., (iv) the Clean Water Act of 1977, 33 U.S.C.A. Section 1251 et seq., (v) the Toxic Substances Control Act, 15 U.S.C.A. Section 2601 et seq., and (vi) all other Laws relating to air pollution, water pollution, noise control and/or the handling, discharge, disposal or recovery of on-site or off-site hazardous substances or materials, as each of the foregoing may be amended from time to time.

"Environmental Liability" means any claim, demand, obligation, cause of action, accusation, allegation, order, violation, damage, injury, judgment, penalty or fine, cost of enforcement, cost of remedial action or any other cost or expense whatsoever, including reasonable attorneys' fees and disbursements, resulting from the violation or alleged violation of any Environmental Law or the imposition of any Environmental Lien.

"Environmental Lien" means a Lien in favor of a Tribunal or other Person (i) for any liability under an Environmental Law or (ii) for damages arising from or costs incurred by such Tribunal or other person in response to a release or threatened release of

hazardous or toxic waste, substance or constituent into the environment.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, together with all presently effective and future regulations issued pursuant thereto.

"Eurodollar Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Eurodollar Lending Office" below its name on Schedule 1 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 Fixed Rate Portion within a Tranche 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. Los Angeles, California 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 Agent's Fixed Rate Portion within such Tranche 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 Fixed Rate Portion 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 Fixed Rate Portion, or if the associated Fixed Rate would exceed the Highest Lawful Rate, Borrower shall be deemed not to have elected such Fixed Rate Portion.

"Event of Default" has the meaning stated in Section 8.01.

"First Indenture Notes" means all of the 12% Senior Notes due 2001 in the aggregate original principal amount of FORTY-SEVEN MILLION FIVE HUNDRED THOUSAND DOLLARS (\$47,500,000) issued by CEC pursuant to the March 31, 1994 Indenture.

"Fiscal quarter" and "fiscal year" refer to the fiscal quarter and fiscal year of CEC or Borrower respectively.

"Fixed Rate" means, with respect to each particular Fixed Rate Portion and the associated Eurodollar 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:

Fixed Rate =

Eurodollar Rate

 100.0% - Reserve Percentage

The Fixed Rate for any Fixed Rate Portion shall change as the Reserve Percentage changes, but if the Reserve Percentage changes during the Interest Period for a Fixed Rate Portion, Majority Lenders may, at their option, either change the Fixed Rate for such Fixed Rate Portion or leave it unchanged for the duration of such Interest Period.

"Fixed Rate Payment Date" means, with respect to any Fixed Rate Portion: (i) the day on which the related Interest Period ends (and, if such Interest Period is three months or longer, the three-month anniversary of the first day of such Interest Period), and (ii) any day on which past due interest or past due principal is owed with respect to such Fixed Rate Portion and is unpaid. If the terms hereof or of the Notes provide that payments of interest or principal with respect to such Fixed Rate Portion shall be deferred from one Fixed Rate Payment Date to another day, such other day shall also be a Fixed Rate Payment Date.

"Fixed Rate Portion" means any portion of the unpaid principal balance of the Loans which Borrower designates as such in a Rate Election.

"GAAP" means those generally accepted accounting principles and practices which are recognized as such by the American Institute of Certified Public Accountants acting through its Accounting Principles Board or by the Financial Accounting Standards Board or through other appropriate boards or committees thereof and which are consistently applied for all periods after the date hereof so as to properly reflect the financial conditions and the results of operations and changes in financial position, of the Companies, except that any accounting principle or practice required to be changed by the Accounting Principles Board or Financial Accounting Standards Board (or other appropriate board committee of such Boards) in order to continue as a generally accepted accounting principle or practice may so be changed. In the event of a change in GAAP, the Loan Documents shall continue to be construed in accordance with GAAP as in existence on the date hereof; provided, however, Lenders and Borrower will thereafter negotiate in good faith to revise any affected covenants to make such covenants consistent with GAAP as then in effect, and, after any such revision, the Loan Documents will be construed in accordance with GAAP as then in effect.

"Guaranty" of any Person means any contract, agreement or understanding of such Person pursuant to which such Person guarantees, or in effect guarantees, any Indebtedness, obligation, fixed or contingent liability, dividend or distribution (the "primary obligation") of any other Person (the

"primary obligor") in any manner, whether directly or indirectly, including without limitation:

- (a) agreements to purchase the primary obligation or any property constituting security therefor;
- (b) agreements to advance or supply funds (i) for the purchase or payment of the primary obligation, or (ii) to maintain working capital, equity capital or other balance sheet conditions;
- (c) agreements to purchase property, securities or services primarily for the purpose of assuring the holder of the primary obligation of the ability of the primary obligor to make payment of the primary obligation;
- (d) letters or agreements commonly known as "comfort" or "keep well" letters or agreements; or
- (e) any other agreements to assure the holder of the primary obligation of the primary obligor against loss in respect thereof.

except that "Guaranty" shall not include the endorsement by the Companies in the ordinary course of business of negotiable instruments or documents for deposit or collection.

"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.

"Incremental Redetermination Date" has the meaning set forth in Section 3.06(b).

"Indebtedness" means, with respect to any Person, all indebtedness, obligations and liabilities of such Person, including, without limitation and without duplication, the following:

- (a) all liabilities, except deferred taxes, which would be reflected on a balance sheet of such Person, prepared in accordance with GAAP;
- (b) all obligations of such Person in respect of any Guaranty or letter of credit;

- (c) all obligations of such Person in respect of any capital lease;
- (d) all production payment obligations of such Person whether or not reflected as a liability; and
- (e) all obligations, indebtedness and liabilities secured by any Lien on any property or assets of any Person;

except that, "Indebtedness" shall not include trade payables incurred in the ordinary course of business for the purchase of goods or services which are not outstanding for longer than (i) 90 days past the date of invoice or incurrence or (ii) 100 days past the date of invoice or incurrence if the Companies have a written agreement with the vendor or supplier thereof and such written agreement provides for such extended payment terms.

"Indenture" means any of (i) that certain Indenture entered into among CEC, the Subsidiary Guarantors (as defined therein) and the Trustee, setting forth the terms and conditions of the First Indenture Notes issued by CEC and the guaranties thereof by the Subsidiary Guarantors; (ii) that certain Indenture entered into among CEC, the Subsidiary Guarantors (as defined therein) and the Trustee, setting forth the terms and conditions of Second Indenture Notes issued by CEC and the guaranties thereof by the Subsidiary Guarantors; or (iii) that certain Indenture entered into among CEC, the Subsidiary Guarantors (as defined therein) and the Trustee, setting forth the terms and conditions of the Third Indenture Notes issued by CEC and the guaranties thereof by the Subsidiary Guarantors.

"Indenture Documents" means one or more of the Indenture, the Indenture Notes, the Offering Memoranda, the warrant agreements and the purchase agreement or agreements with the purchasers pursuant to the Offering Memoranda, and any and all other agreements or documents (and any amendments or supplements thereto or modifications or restatements thereof) executed or delivered pursuant to the terms of any Indenture or in connection therewith.

"Indenture Notes" means the First Indenture Notes, the Second Indenture Notes and the Third Indenture Notes.

"Interest Payment Date" means the last day of each month hereafter, beginning September 30, 1996.

"Interest Period" means, with respect to each particular Fixed Rate Portion, a period of 1, 2, 3 or 6 months, as specified in the Rate Election applicable thereto, beginning on and including the date specified in such Rate Election (which must be a Business Day), and ending on but not including the same day of the month as the day on which it began (e.g., a period beginning on the third day of one month shall end on but not include the third day of another month), provided that each Interest Period

which would otherwise end on a day which is not a Business Day shall end on the next succeeding Business Day (unless such next succeeding Business Day is the first Business Day of a calendar month, in which case such Interest Period shall end on the immediately preceding Business Day). No Interest Period may be elected which would extend past the date on which any Note is due and payable in full.

"Internal Revenue Code" means the United States Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder and any successor statutes.

"Investment" in any Person means any investment, whether by means of share purchase, loan, advance, extension of credit, capital contribution or otherwise, in or to such Person, the Guaranty of any Indebtedness of such Person or the subordination of any claim against such Person to other Indebtedness of such Person; except that "Investment" shall not include (i) trade receivables incurred in the ordinary course of business for the sale of goods or services nor (ii) the purchase of oil and gas properties in the ordinary course of business.

"Laws" means all applicable statutes, laws, ordinances, regulations, orders, judgments, writs, injunctions or decrees of any state, commonwealth, nation, territory, possession, province, county, parish, town, township, village, municipality or Tribunal; and "Law" means each of the foregoing.

"Lenders" means each signatory hereto (other than Borrower and CEC), including Union Bank in its capacity as a lender hereunder rather than as Agent, and the successors of each as holder of a Note.

"Lien" means any lien, mortgage, security interest, tax lien, pledge, encumbrance, Environmental Lien, conditional sale or title retention arrangement, or any other interest in property designed to secure the repayment of a liability, whether arising by agreement or under any Law, or otherwise.

"Litigation" means any proceeding, claim, lawsuit and/or investigation conducted or threatened by or before any Tribunal.

"Litigation Reports" means the reports delivered pursuant to Section 4.01(o) and Section 6.01(h).

"Loan Documents" means: (a) this Agreement, (b) the Notes, (c) the guaranty agreement provided for in Section 4.01(b), (d) the Subordination Agreement, (e) the Security Documents executed by Borrower in connection with the Original Agreement and this Agreement and (f) any and all other agreements or documents (and any amendments or supplements thereto or modifications or restatements thereof) executed or delivered pursuant to the terms of this Agreement or in connection herewith or therewith.

"Loans" mean the Revolving Loans and the Term Loans, and each, individually, a Loan.

"Majority Lenders" means at the time in question one or more Lenders whose aggregate Percentage Shares equal or exceed sixty-six and two-thirds percent (66 2/3%).

"Material Adverse Effect" means any circumstance or event which (i) could reasonably be expected to have any material adverse effect whatsoever upon the validity, performance, perfection or enforceability of any Loan Documents, (ii) is material and adverse to the financial condition or business operations of Borrower or of CEC, individually or with its Consolidated Subsidiaries, (iii) could reasonably be expected to materially impair the ability of Borrower or CEC to fulfill their respective obligations under the Loan Documents, or (iv) may result in or cause a Default or an Event of Default.

"Monthly Reduction Amount" shall be an amount equal to One Million Seven Hundred Fifty Thousand Dollars (\$1,750,000), which amount shall be periodically redetermined by Majority Lenders on each Redetermination Date.

"Monthly Reduction Date" shall mean October 5, 1996 and the fifth day of each month thereafter.

"Mortgages" has the meaning stated in Section 4.01(j).

"Notes" means the Revolving Notes, the Term Notes, and all renewals and extensions thereof and/or replacements or substitutions therefor.

"Notice of Borrowing" has the meaning stated in Section 2.02(a).

"Obligations" means all present and future indebtedness, obligations and liabilities of Borrower to Agent or any Lender, and all renewals and extensions thereof, or any part thereof, arising pursuant to this Agreement or any other Loan Document, or represented by the Notes, and all interest accruing thereon (including, without limitation, interest which, but for the filing of a petition in bankruptcy with respect to Borrower, would accrue on such Obligations), and attorneys fees incurred in the enforcement or collection thereof, regardless of whether such indebtedness, obligations and liabilities are direct, indirect, fixed, contingent, joint, several or joint and several.

"Offering Memoranda" means (i) the final offering memorandum dated March 31, 1994 with respect to the First Indenture Notes and warrants to be issued in connection with the First Indenture Notes; (ii) the final offering memorandum dated May 18, 1995 with respect to the Second Indenture Notes; and (iii) the final offering memorandum dated April 1, 1996 with respect to the Third Indenture Notes.

"Oil and Gas Properties" means the properties set forth on Exhibit "I", and as from time to time supplemented as set forth in Section 6.16.

"PBGC" shall mean the Pension Benefit Guaranty Corporation, and any successor to all or any of the Pension Benefit Guaranty Corporation's functions under ERISA.

"Percentage Share" means, with respect to any Lender (a) when used in Section 2.01, in any Notice of Borrowing, or when no Loans are outstanding hereunder, the percentage set forth opposite such Lender's name on Schedule 1 hereto, and (b) when used otherwise, the percentage equal to the unpaid principal balance of such Lender's Loan at the time in question divided by the aggregate unpaid principal balance of all Loans at such time.

"Permitted Indebtedness" has the meaning stated in Section 7.01.

"Permitted Liens" means: (i) Liens granted to the Lenders (or the Agent for the benefit of Lenders) to secure the Obligations, (ii) Liens described on Exhibit "H" and renewals and extensions thereof so long as the Indebtedness secured thereby and the interest rate payable thereon is not increased or the maturity shortened, (iii) pledges or deposits made to secure payment of worker's compensation insurance (or to participate in any fund in connection with worker's compensation insurance), unemployment insurance, pensions or social security programs, (iv) Liens imposed by mandatory provisions of Law such as carrier's, materialmen's, mechanics', warehousemen's, landlord's and other like Liens arising in the ordinary course of business, securing Indebtedness not yet due or which qualifies as a Contested Claim, (v) Liens for Taxes, if the same are not yet due and payable or qualify as a Contested Claim, (vi) Liens arising in the ordinary course of business from pledges or deposits to secure public or statutory obligations, deposits to secure (or in lieu of) surety, stay, appeal or customs bonds and deposits to secure the payment of Taxes, (vii) encumbrances consisting of zoning restrictions, easements or other restrictions on the use of real property, provided that such items do not materially impair the use of such property for the purposes intended, and none of which are violated by existing or proposed structures or land use, (viii) Liens arising under operating agreements governing operation of the Oil and Gas Properties, (ix) Liens on stock of, or partnership interests in, Subsidiaries of CEC securing Indebtedness permitted by Section 7.01(iv), and (x) Liens on assets or property of a Company other than CEC or Borrower securing Indebtedness permitted by Section 7.01(v).

"Permitted Payment" means any of the following in cash or Temporary Cash Investments (i) payment on a current basis (not later than 90 days after the incurrence thereof) of amounts owed to Chesapeake Operating Inc., as operator, in respect to leasehold operating costs and drilling and development costs

under an approved AFE, in an amount not in excess of the actual out of pocket costs incurred by Chesapeake Operating Inc. for such costs, (ii) reimbursement for production and severance taxes paid by another Company with respect to Borrower's production, (iii) reimbursement on a current basis (not later than 90 days after the incurrence thereof) to another Company of accounts payable and similar obligations of Borrower arising in the ordinary course of business of Borrower which have been paid or incurred by such Company on behalf of Borrower, (iv) any dividends or any other distributions by Borrower or any Subsidiary of Borrower or any Restricted Subsidiary (as defined in the Indenture) (any one of which being hereinafter referred to as a "Payor Party") on its Capital Stock (as defined in the Indenture) or on any other interest or participation in the Payor Party, (v) payment of any Indebtedness (as defined in the Indenture) owed by a Payor Party to CEC or any Restricted Subsidiary (as defined in the Indenture) of CEC, (vi) any loan or advance from a Payor Party to CEC or to any Restricted Subsidiary (as defined in the Indenture) of CEC that directly or indirectly owns a majority ownership interest in such Payor Party (any one of which being hereinafter referred to as a "Parent"), or (vii) transfer of property from a Payor Party to its Parent.

"Person" includes any individual, corporation, limited liability company, joint venture, general or limited partnership, trust, organization, association, other entity or Tribunal.

"Plan" means an employee benefit plan as defined in Section 3(3) of ERISA maintained by CEC or a member of the Controlled Group for its employees.

"Rate Election" has the meaning given to it in Section 3.03(a).

"Redemptions" means, in respect of any corporation, any and all funds, cash, property or other payments made in respect of the redemption, repurchase or acquisition of any class of capital stock or other securities of such corporation, unless such stock or other securities are redeemed or acquired through the exchange of such stock or other securities with stock or other securities of the same class.

"Redetermination Date" has the meaning stated in Section 3.06(b).

"Reductions" means the reductions set forth in Section 2.05(a) and Section 2.05(b).

"Regulation D", "Regulation G", "Regulation T", "Regulation U" and "Regulation X" mean Regulation D, G, T, U or X, as the case may be, of the Board of Governors of the Federal Reserve System, or any successor or other regulation hereafter promulgated by said Board to replace the prior Regulation D, G, T, U or X and having substantially the same function.

"Reportable Event" has the meaning stated in Title IV of ERISA.

"Reserve Percentage" means, on any day with respect to each particular Fixed Rate Portion in a Tranche, 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 to any bank in the New York Federal Reserve System under Regulation D with respect to "Eurocurrency liabilities" (as such term is defined in Regulation D). 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.

"Restricted Payments" means any Dividend or other distribution, any loan, Investment, advance, payment or prepayment of Indebtedness, obligation, or debt, purchase of assets or Indebtedness, obligation, or debt, transfer of assets or other payment by Borrower to any other Company or to any Affiliate.

"Revolver Maturity Date" means the earlier of (a) April 30, 2001 or (b) the Conversion date.

"Revolving Commitment", at any time, means \$75,000,000, less the sum of all reductions pursuant to Section 2.04. The face amounts of the Revolving Notes totalling an aggregate sum of \$125,000,000 have been established as an administrative convenience and do not commit any Lender to advance funds hereunder under any circumstances in excess of such Lender's Percentage Share of \$75,000,000, as each Lender's commitment to advance funds hereunder is determined by reference to such Lender's Percentage Share of the lesser of (i) the Revolving Commitment or (ii) the Borrowing Base from time to time in effect.

"Revolving Commitment Fee" has the meaning stated in Section 2.03.

"Revolving Commitment Period" means the period beginning on the date hereof and ending on the earlier of (i) the Revolver Maturity Date or (ii) the date on which the Revolving Commitment is terminated or reduced to zero.

"Revolving Loans" has the meaning stated in Section 2.01.

"Revolving Note" means the promissory note from Borrower to a Lender delivered pursuant to Section 3.01, and all renewals and extensions thereof and substitutions and replacements therefor.

"Rights" means rights, remedies, powers and privileges.

"Second Indenture Notes" means all of the 10.5% Senior Notes due 2002 in the aggregate principal amount of NINETY MILLION DOLLARS (\$90,000,000.00) issued by CEC pursuant to the May 25, 1995 Indenture.

"Secretary" includes any Assistant Secretary.

"Security Documents" has the meaning set forth in Section 4.01(j).

"Subsidiary" means any corporation or partnership of which 50% or more of the Voting Shares is owned or which is otherwise controlled, directly or indirectly through one or more intermediaries, by a Person, and "Subsidiaries" means all of such corporations or partnerships.

"Subordination Agreement" has the meaning set forth in Section 4.01(c).

"Taxes" means all taxes, assessments, fees, levies, imposts, duties, penalties, deductions, withholdings or other charges of any nature whatsoever from time to time or at any time imposed by any Law or any Tribunal.

"Temporary Cash Investment" means any Investment in (i) direct obligations of the USA or any agency thereof, or obligations fully guaranteed by the USA or any agency thereof (including indirect investments in such obligations through repurchase agreements with commercial banks or nationally recognized investment banks), provided that such obligations mature within 30 days of the date of acquisition thereof, (ii) commercial paper rated in the highest grade by two or more national credit rating agencies and maturing not more than 30 days from the date of acquisition thereof, (iii) time deposits with, and certificates of deposit and banker's acceptances issued by, Agent, any Lender or any USA commercial bank having capital, surplus and undivided profits aggregating at least \$250,000,000, (iv) money market funds acceptable to Agent in its sole and absolute discretion, and (v) commercial paper maturing not more than 30 days from the acquisition thereof issued by Agent or any Lender.

"Term Loans" means the Loans to which the Revolving Loans may be converted pursuant to Section 2.07.

"Term Notes" means the promissory notes from Borrower to the Lenders delivered pursuant to Section 3.02 and all renewals and extensions thereof and substitutions and replacements therefor.

"Third Indenture Notes" means all of the Senior Notes due 2006 in the aggregate principal amount of ONE HUNDRED TWENTY MILLION DOLLARS (\$120,000,000.00) issued by CEC pursuant to the April 1, 1996 Indenture.

"Tranche" has the meaning set forth in Section 3.03(a).

"Tribunal" means any government, any arbitration panel, any court or any governmental department, commission, board, bureau, agency or instrumentality of the USA or any state, province, commonwealth, nation, territory, possession, county, parish, town, township, village or municipality, whether now or hereafter constituted and/or existing.

"Trustee" means the trustee under the Indenture.

"UCC" means the Uniform Commercial Code of the State of Texas and of any other state to the extent Texas Law requires application of the same.

"USA" means the United States of America.

"Voting Shares" of any corporation means shares of any class or classes (however designated) having ordinary voting power for the election of at least a majority of the members of the Board of Directors (or other governing bodies) of such corporation.

1.02. General Definitional Provisions.

(a) All terms defined in Article One shall have the meanings specified therein when used in this Agreement, the Notes or any other Loan Documents, certificate, report or other document made or delivered pursuant to this Agreement or the other Loan Documents, unless in any case the context states or implies otherwise.

(b) All terms used herein in the singular shall include the plural, and vice versa.

(c) The words "hereof", "herein", "hereunder" and "hereto" and similar terms when used in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement.

(d) All accounting terms not specifically defined herein shall be construed in accordance with GAAP.

(e) The terms "Section" and "Article" refer to Sections and Articles of this Agreement, and the term "Exhibit" refers to Exhibits attached hereto and any amendments to such Exhibits, unless in any case the context states or implies otherwise.

(f) Each determination by Agent or any Lender of amounts to be paid under Sections 3.14 through 3.18 shall, in the absence of manifest error, be conclusive and binding.

ARTICLE TWO

REVOLVING LOANS; CONVERSION TO TERM LOAN

2.01. Revolving Commitment. Subject to the terms and conditions of this Agreement, each Lender severally agrees to lend to Borrower, on a revolving basis in one or more Advances from time to time during the Revolving Commitment Period, the amounts requested by Borrower in each Notice of Borrowing (the aggregate amount of such Advances made by a Lender being called such Lender's "Revolving Loan"); provided, however, that (i) no Lender shall be obligated to make Advances in excess of such Lender's Percentage Share of the lesser of the Borrowing Base or the Revolving Commitment then in effect, (ii) the aggregate amount of Advances outstanding at any time with respect to the Revolving Loans shall never exceed the lesser of the Borrowing Base or the Revolving Commitment in effect at such time, and (iii) the aggregate amount of all Advances requested of Lenders, except Advances of the remaining unborrowed Revolving Commitment, shall be in an amount of \$1,000,000 or more in increments of \$100,000.

2.02. Manner of Borrowing.

(a) Notice of Borrowing. Not less than the time required for notice by Section 4.02(f), prior to the requested date of any Advance, Borrower shall give the Agent written notice of each requested Advance in the form of Exhibit "A" (a "Notice of Borrowing"), after which Agent shall give each Lender prompt notice thereof.

(b) Funding. Upon fulfillment of all applicable conditions with respect to an Advance, each Lender shall before 10:00 a.m. (Los Angeles, California time) on the date requested promptly remit for the account of its Applicable Lending Office to Agent at Agent's office in Los Angeles, California the amount of such Lender's Advance in immediately available funds, and upon receipt of such funds, unless to its actual knowledge any conditions precedent to such Advances have been neither met nor waived as provided herein, Agent shall promptly make the Advances available to Borrower at Borrower's operating account at the principal office of Agent. Unless Agent shall have received prompt notice from a Lender that such Lender will not make available to Agent such Lender's Advance, Agent may in its discretion assume that such Lender has made such Advance available to Agent in accordance with this section and Agent may if it chooses, in reliance upon such assumption, make such Advance available to Borrower. If and to the extent such Lender shall not so make its Advance available to Agent, such Lender and Borrower severally agree to pay or repay to Agent within three days after demand the amount of

such Advance together with interest thereon, for each day from the date such amount is made available to Borrower until the date such amount is paid or repaid to Agent, at the interest rate applicable at the time to the other Advances made on such date. The failure of any Lender to make any Advance to be made by it hereunder shall not relieve any other Lender of its obligation hereunder, if any, to make its Advance, but no Lender shall be responsible for the failure of any other Lender to make any Advance to be made by such other Lender.

2.03. Revolving Commitment Fee. Borrower agrees to pay to the Agent for the account of each Lender in arrears on the last Business Day of each March, June, September, and December during the Revolving Commitment Period, beginning September 30, 1996, a commitment fee (the "Revolving Commitment Fee") computed on a daily basis at the following rates, as applicable on such day, times such Lender's Percentage Share of the entire unused portion of the lesser of the Borrowing Base or the Revolving Commitment then in effect during the three month period for which payment is made (calculated and computed on such per annum rate on the basis of the actual days elapsed):

(a) For each day on which the aggregate amount of Advances outstanding is less than, or equal to, TEN MILLION DOLLARS (\$10,000,000), three-eighths of one percent (0.375%) per annum; and

(b) For each day on which the aggregate amount of Advances outstanding is greater than TEN MILLION DOLLARS (\$10,000,000), one-fourth of one percent (0.25%) per annum.

2.04. Optional Reduction of Revolving Commitment. Borrower may at any time, or from time to time, upon not less than five (5) Business Days' prior written notice to Agent and each Lender, reduce or terminate the Revolving Commitment; provided, however, that (i) each reduction must be in the amount of \$100,000 or more in increments of \$100,000 and (ii) each reduction must be accompanied by a prepayment of the Revolving Notes in the amount by which the principal balance exceeds the reduced Revolving Commitment plus all then accrued but unpaid interest. Borrower shall have no right to reinstate the amount of any reduction without the prior written consent of Lenders.

2.05. Reductions to Borrowing Base.

(a) The Borrowing Base shall be reduced on each Monthly Reduction Date by the Monthly Reduction Amount.

(b) The Borrowing Base shall be additionally reduced by an amount equal to the proceeds (net of reasonable transaction costs) of all sales or transfers of Collateral made by Borrower pursuant to Section 7.06(v) or for which consent has been obtained from Majority Lenders, each such

reduction to be made on the last day of the second calendar month following consummation of a sale or transfer made pursuant to Section 7.06(v) and at the time of consummation of a sale or transfer for which consent has been obtained from Majority Lenders.

2.06. Use of Proceeds. The proceeds of the initial Advances shall be used to refinance all outstanding Indebtedness of Borrower owing to Union Bank under the Original Agreement. The proceeds of all other Advances shall be used to provide funds for the acquisition and development of oil and gas properties and for working capital needs.

2.07. Conversion of Revolving Loans. If at any time the aggregate outstanding principal amount of the Revolving Notes ever exceeds the Borrowing Base and Borrower fails to cure such excess as provided in Section 3.05(b) of this Agreement, Lenders may at their option, either: (a) declare such failure to be an Event of Default; or (b) convert the Revolving Loans (the "Conversion") into term loans in the aggregate principal amount of the aggregate outstanding balance of the Advances under the Revolving Loans as of the date of Conversion with monthly principal and interest payments thereon based upon an amortization schedule acceptable to Lenders. In such event, on the final day of the Revolving Commitment Period, Borrower will execute and deliver to each Lender a Term Note in the amount of such Lender's Revolving Note. Upon delivery of a Term Note to a Lender, such Lender's Revolving Note shall be marked "Renewed" and such Lender shall retain the Revolving Note, so marked, as additional evidence of the Indebtedness of Borrower hereunder.

ARTICLE THREE

NOTE AND NOTE PAYMENTS

3.01. Revolving Notes. The Advances made by each Lender under Section 2.01 shall be evidenced by promissory notes of Borrower in the form of Exhibit "B", which Revolving Notes shall (i) be dated the date hereof (or a later date, in case of renewal, substitute or replacement Revolving Notes), (ii) be in the principal amount of such Lender's Percentage Share of the Revolving Commitment, (iii) bear interest in accordance with Section 3.03 and (iv) be payable to the order of such Lender. Notwithstanding the aggregate principal amount of the Revolving Notes as stated on the faces thereof, the aggregate amount of principal actually owing on such Revolving Notes at any given time and the amount on which interest is calculated shall be the aggregate of all Advances theretofore made to Borrower, less all payments of principal theretofore actually received by the holders thereof.

3.02. Term Notes. The Conversion, if it occurs, shall be evidenced by Term Notes of Borrower payable to Lenders in the

form of Exhibit "C" and each such Term Note shall (i) be dated as of the date of the Conversion (or a later date in case of any renewal, substitute or replacement Term Note), (ii) be in the aggregate principal amount of the outstanding principal balance of the Revolving Notes as of the time of the Conversion, (iii) bear interest in accordance with Section 3.03 and (iv) be payable to the order of each Lender.

3.03. Interest Rates.

(a) Rate Elections. Borrower may from time to time designate all or any portion of the Loans (including any yet to be made Advances which are to be made prior to or at the beginning of the designated Interest Period but excluding any portions of the Loans which are required to be repaid prior to the end of the designated Interest Period) as a "Tranche", which term refers to a set of Fixed Rate Portions with identical Interest Periods and with each Lender participating in such Tranche in accordance with its Percentage Share. Without the consent of Majority Lenders, Borrower may make no such election during the continuance of a Default and Borrower may make such an election with respect to an already existing Fixed Rate Portion only if such election will take effect at or after the termination of the Interest Period applicable to such already existing Fixed Rate Portion. Each election by Borrower of a Tranche shall:

(i) Be made in writing in the form and substance of the "Rate Election" attached hereto as Exhibit "M," duly completed;

(ii) Specify the amount of the Loans which Borrower desires to designate as such Tranche, the first day of the Interest Period which is to apply thereto, and the length of such Interest Period; and

(iii) Be received by Agent not later than 10:00 a.m., Los Angeles, California time, on the third Business Day preceding the first day of the specified Interest Period.

Promptly after receiving any such election (herein called a "Rate Election") which meets the requirements of this section, Agent shall notify each Lender thereof. Each Rate Election shall be irrevocable. Borrower may make no Rate Election which does not specify an Interest Period complying with the definition of "Interest Period" in Section 1.01, and the amount of the Tranche elected in any Rate Election shall be \$1,000,000 or more in increments of \$100,000. Upon the termination of each Interest Period the portion of each Loan theretofore constituting the related Fixed Rate Portion shall, unless the subject of a new Rate Election then taking effect, automatically become a part of the Base Rate Portion

of such Loan and become subject to all provisions of the Loan Documents governing the Base Rate Portion. Borrower shall have no more than six (6) Tranches in effect at any time.

(b) Adjusted Base Rate. The Base Rate Portion of the Loans outstanding from day to day shall bear interest at the rate per annum from day to day equal to the lesser of (i) the Base Rate plus the Applicable Margin (the "Adjusted Base Rate"), or (ii) the Highest Lawful Rate.

(c) Adjusted Fixed Rate. Each Fixed Rate Portion of the Loans outstanding from day to day shall bear interest on each day during the related Interest Period at the lesser of (i) the related Fixed Rate in effect as of such day for such Fixed Rate Portion plus the Applicable Margin (the "Adjusted Fixed Rate") or (ii) the Highest Lawful Rate.

(d) Default Rate. After maturity, which shall include, without limitation, the maturity of any principal required by Section 3.04 or Section 3.05, committed to be prepaid pursuant to Section 2.04, stated or by acceleration, the principal of and overdue interest on the Notes and all other Obligations shall bear interest, to the extent permitted by Law, from such maturity until the date paid at a rate per annum from day to day equal to the Default Rate.

(e) Recapture Rate. Notwithstanding the foregoing, if at any time the Adjusted Base Rate, the Adjusted Fixed Rate or the Default Rate (without reference to the Highest Lawful Rate limitation) exceeds the Highest Lawful Rate, and therefore, the rate of interest on any Note is limited to the Highest Lawful Rate, then any subsequent reductions in the Adjusted Base Rate or the Adjusted Fixed Rate shall not reduce the rate of interest on any Note below the Highest Lawful Rate until the total amount of interest accrued on such Note equals the amount of interest which would have accrued thereon if the Adjusted Base Rate or the Adjusted Fixed Rate (without reference to the Highest Lawful Rate limitation), as the case may be, had at all times been in effect, but in no event shall the aggregate interest payable or paid during the period beginning on the date the initial Advance is made until the Obligations are paid in full exceed the amount equal to interest at the Highest Lawful Rate.

3.04. Principal Payments.

(a) Revolving Notes. The unpaid principal balance of each Revolving Note shall be due and payable on the Revolver Maturity Date.

(b) Term Note. Upon Conversion pursuant to Section 2.07, the amortization schedule for each Term Note

shall be determined by Lenders in their sole discretion, based upon Lenders' evaluation of the Collateral and other factors Lenders deem appropriate, at the time of Conversion.

3.05. Prepayments.

(a) Revolving Commitment Exceeded. If at any time the outstanding principal balance of the Revolving Loans ever exceeds the Revolving Commitment then in effect, then Borrower shall immediately repay the amount of such excess, together with accrued interest thereon, so as to reduce the outstanding principal balance of the Revolving Loans to the Revolving Commitment.

(b) Borrowing Base Exceeded. If at any time the aggregate outstanding principal balance of the Revolving Notes ever exceeds the Borrowing Base then in effect, then Borrower shall within 30 days thereof, either (i) repay the amount of such excess, together with accrued interest thereon, so as to reduce the aggregate outstanding principal balance of such Revolving Notes to the Borrowing Base or (ii) grant Lenders first perfected Liens in and to such additional Collateral satisfactory to Majority Lenders, pursuant to documentation in form and substance satisfactory to Majority Lenders to increase the Borrowing Base to an amount at least equal to the then aggregate outstanding principal balance of the Revolving Notes. In the event Borrower fails to comply with this Section 3.05(b), then, upon the expiration of the 30 day period set forth in the first sentence in this Section 3.05(b), such failure shall constitute an Event of Default unless Lenders implement the Conversion pursuant to Section 2.07.

(c) Optional Prepayments. Borrower may, without premium or penalty, upon one Business Day's prior written notice to each Lender, prepay the principal of any Note then outstanding, in whole or in part, at par at any time or from time to time; provided, however that each prepayment of less than the full outstanding principal balance of such Note shall be in the amount of \$100,000 or more in increments of \$100,000. A notice of prepayment shall constitute a binding obligation of Borrower to make a prepayment on the date stated therein.

3.06. Borrowing Base Determination. The Borrowing Base shall be determined as follows:

(a) Initial Borrowing Base. At any time during the period from the date of execution hereof until the first Redetermination Date occurring thereafter, the amount of the Borrowing Base shall be an amount equal to \$75,000,000 minus the sum of all Reductions to such date. Notwithstanding the foregoing, until such time as Agent has received evidence of good and defensible title to the Oil and Gas Properties

pursuant to Section 4.03, the amount of the Borrowing Base as of any date shall be an amount equal to \$35,000,000 minus the sum of all Reductions to such date.

(b) Periodic Redetermination of Borrowing Base. The Borrowing Base will be redetermined by each May 1 and November 1 hereafter during the Revolving Commitment Period commencing November 1, 1996 (each such redetermination date being referred to as a "Redetermination Date"). The Borrowing Base shall be redetermined by Agent and approved by Majority Lenders, provided that all Lenders must approve any increase in the Borrowing Base. In addition, either Majority Lenders or Borrower may at any time request additional Borrowing Base redeterminations. Each such request made by Borrower shall be accompanied by the information set forth in Section 6.01(f) and by an engineering fee, for the sole account of Agent, in the amount set forth in that certain letter agreement dated of even date herewith between Agent and Borrower (the date of each such incremental redetermination shall be referred to as an "Incremental Redetermination Date"). Each month, Borrower shall furnish or cause to be furnished to each Lender all information and data pertaining to the Collateral as Agent may reasonably request or that is currently being delivered, all in form and substance reasonably satisfactory to Agent. On each Redetermination Date or Incremental Redetermination Date, or as soon thereafter as reasonably practicable, Agent shall send written notice to Borrower of the new Borrowing Base. The amount set forth in such notice shall be effective on the date of such notice, as the amount of the Borrowing Base (subject to Reductions) for all purposes of this Agreement, until notice of a new Borrowing Base determined in accordance with the provisions of this Agreement is given by Agent to Borrower. The amount of the Borrowing Base shall always be determined by Lenders in their sole and absolute discretion based upon such factors as Lenders, in their sole and absolute discretion, shall determine to be appropriate.

3.07. Payment of Interest. Interest on the Base Rate Portion of each Note shall be payable on each Interest Payment Date. Interest on the Fixed Rate Portion of each Note shall be payable on each Fixed Rate Payment Date. On the date of the Conversion, Borrower will pay Agent for the account of each Lender to whom such payment is owed upon the Conversion, all accrued but unpaid interest on each Revolving Note.

3.08. Calculation of Interest. Interest on the Fixed Rate Portion of each Note shall be calculated on the basis of actual days elapsed and a year of 360 days. All other calculations of interest on each Note shall be made on the basis of the actual days elapsed in each year consisting of 365 or 366 days, as appropriate.

3.09. Manner and Application of Payments. All payments and prepayments of principal of, and interest on, each Note shall be made by Borrower to the Agent for the account of each Lender to whom such payment is owed. Each payment of principal, interest, fees and other obligations must be made to Agent at or before 10:00 a.m. (Los Angeles, California, time), in federal or other immediately available funds at 445 South Figueroa Street, Los Angeles, California 90071. Any payment received after 10:00 a.m. (Los Angeles, California, time) shall be deemed to have been made on the next succeeding Business Day. Should any principal of or interest on any Note, or any fee, become due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day and interest thereon shall be payable at the then applicable interest rate during such extension. When Agent collects or receives money on account of the Obligations, Agent shall distribute all money so collected or received and Lenders shall apply all such money they receive from Agent, 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 Sections 8.04 and 10.05(a) and then to the partial payment of all other Obligations then due in proportion to the amounts thereof, or as Lenders 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 3.05(c). All distributions of amounts described in any of subsections (b), (c) or (d) above shall be made by Agent pro rata to Agent and each Lender then owed Obligations described in such subsections in proportion to all amounts owed to Agent and all Lenders which are described in such subsections.

3.10. Sharing of Set-Offs and Other Payments. Agent and each Lender agrees that if it shall, whether through the exercise of rights under Security Documents or rights of banker's lien, set off, or counterclaim against any Company 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 3.09, causes Agent or such Lender to have received more

than it would have received had such payment been received by Agent and distributed pursuant to Section 3.09, then (a) it shall be deemed to have simultaneously purchased and shall be obligated to purchase interests in the Obligations as necessary to cause Agent and all Lenders to share all payments as provided for in Section 3.09, 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 3.09; provided, however, that nothing herein contained shall in any way affect the right of Agent or any Lender 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 court order to be paid on account of the possession of such funds prior to such recovery.

3.11. Facility Fee. Borrower shall pay to Agent for the account of each Lender, on the date hereof, a facility fee in the amount set forth in those certain letter agreements dated of even date herewith between each Lender and Borrower. Borrower further agrees to pay to Agent for the account of each Lender, on each Redetermination Date, a facility fee in the amount of three-eighths of one percent (.375%) of the amount, if any, by which the Borrowing Base determined on such Redetermination Date exceeds the Borrowing Base determined on the prior Redetermination Date.

3.12. Agent Fees. Borrower will pay to Agent, for its sole account, agent fees as set forth in the certain letter agreement dated of even date herewith between Agent and Borrower.

3.13. Production Proceeds. Notwithstanding that, by the terms of the various Security Documents, Borrower is and will be assigning to Agent for the benefit of Lenders all of the "Production Proceeds" (as defined therein) accruing to the property covered thereby, and Agent is entitled to apply the same as a prepayment on the indebtedness secured thereby, including the Term Loan, (i) so long as Agent has not requested, pursuant to Section 6.17, that all purchasers of production remit payments to the Clearing Account, then Borrower may continue to receive Production Proceeds and (ii) so long as no Event of Default has occurred which is continuing, Agent shall not apply such Production Proceeds as a prepayment on the indebtedness secured

by the Security Documents, including the Term Loan, and so long as no Default or Event of Default shall have occurred which is continuing, any such Production Proceeds received by Agent in excess of the amounts of such indebtedness then due and owing to Lenders shall be paid to Borrower. In no case shall any failure, whether purposed or inadvertent, by Agent or any Lender to collect directly any such Production Proceeds constitute in any way a waiver, remission or release of any of its rights under the Security Documents, nor shall any release of any Production Proceeds by Agent or any Lender to Borrower constitute a waiver, remission, or release of any other Production Proceeds or of any rights of Agent and/or Lenders to collect other Production Proceeds thereafter.

3.14. Increased Cost of Fixed Rate Portions. If any applicable domestic or foreign law, treaty, rule or regulation (whether now in effect or hereinafter enacted or promulgated, including Regulation D) or any interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof (whether or not having the force of law):

(a) shall change the basis of taxation of payments to any Lender of any principal, interest, or other amounts attributable to any Fixed Rate Portion or otherwise due under this Agreement in respect of any Fixed Rate Portion (other than taxes imposed on the overall net income of such Lender or any lending office of such Lender by any jurisdiction in which such Lender or any such lending office is located); or

(b) shall change, impose, modify, apply or deem applicable any reserve, special deposit or similar requirements in respect of any Fixed Rate Portion of any Lender (excluding those for which such Lender is fully compensated pursuant to adjustments made in the definition of Fixed Rate) or against assets of, deposits with or for the account of, or credit extended by, such Lender; or

(c) shall impose on any Lender or the interbank eurocurrency deposit market any other condition affecting any Fixed Rate Portion, the result of which is to increase the cost to such Lender of funding or maintaining any Fixed Rate Portion or to reduce the amount of any sum receivable by any Lender in respect of any Fixed Rate Portion by an amount deemed by such Lender to be material,

then such Lender shall promptly notify Borrower in writing of the happening of such event and of the amount required to compensate such Lender for such event (on an after-tax basis, taking into account any taxes on such compensation), whereupon (i) Borrower shall pay such amount to such Lender and (ii) Borrower may elect, by giving to such Lender not less than three Business Days'

notice, to convert all (but not less than all) of any such Fixed Rate Portion into a part of the Base Rate Portion.

3.15. Availability. If (a) any change in applicable laws, treaties, rules or regulations or in the interpretation or administration thereof or in any jurisdiction whatsoever, domestic or foreign, shall make it unlawful or impracticable for any Lender to fund or maintain Fixed Rate Portions, or shall materially restrict the authority of any Lender to purchase or take offshore deposits of dollars (i.e., "eurodollars"), or (b) any Lender determines that matching deposits appropriate to fund or maintain any Fixed Rate Portion are not available to it, or (c) any Lender determines that the formula for calculating the Fixed Rate does not fairly reflect the cost to such Lender of making or maintaining loans based on such rate, then Borrower's right to elect Fixed Rate Portions shall be suspended to the extent and for the duration of such illegality, impracticability or restriction and all Fixed Rate Portions (or portions thereof) which are then outstanding or are then the subject of any Rate Election and which cannot lawfully or practicably be maintained or funded shall immediately become or remain part of the Base Rate Portion. Borrower agrees to indemnify each Lender and hold it harmless against all costs, expenses, claims, penalties, liabilities and damages which may result from any such change in law, treaty, rule, regulation, interpretation or administration directly related to Fixed Rate Portions outstanding at such time such items are incurred by such Lender. Such indemnification shall be on an after-tax basis, taking into account any taxes imposed on the amounts paid as indemnity.

3.16. Funding Losses. In addition to its other obligations hereunder, Borrower will indemnify Agent and each Lender against, and reimburse Agent and each Lender on demand for, any loss or expense incurred or sustained by Agent or such Lender (including any loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by a Lender to fund or maintain Fixed Rate Portions), as a result of (a) any payment or prepayment (whether authorized or required hereunder or otherwise) of all or a portion of a Fixed Rate Portion on a day other than the day on which the applicable Interest Period ends, (b) any payment or prepayment, whether required hereunder or otherwise, of a Loan made after the delivery, but before the effective date, of a Rate Election, if such payment or prepayment prevents such Rate Election from becoming fully effective, (c) the failure of any Advance to be made or of any Rate Election to become effective due to any condition precedent not being satisfied or due to any other action or inaction of any of the Companies, or (d) any conversion (whether authorized or required hereunder or otherwise) of all or any portion of any Fixed Rate Portion into the Base Rate Portion or into a different Fixed Rate Portion on a day other than the day on which the applicable Interest Period ends. Such indemnification shall be on an after-tax basis, taking into account any taxes imposed on the amounts paid as indemnity.

3.17. Reimbursable Taxes. Borrower covenants and agrees that:

(a) Borrower will indemnify Agent and each Lender against and reimburse Agent and each Lender for all present and future income, stamp and other taxes, levies, costs and charges whatsoever imposed, assessed, levied or collected on or in respect of this Agreement or any Fixed Rate Portions (whether or not legally or correctly imposed, assessed, levied or collected), excluding, however, any franchise taxes or taxes imposed on or measured by the overall net income of Agent or such Lender or any lending office of Agent or such Lender by any jurisdiction in which Agent or such Lender or any such lending office is located (all such non-excluded taxes, levies, costs and charges being collectively called "Reimbursable Taxes" in this section). Such indemnification shall be on an after-tax basis, taking into account any taxes imposed on the amounts paid as indemnity.

(b) All payments on account of the principal of, and interest on, each Lender's Loan and each Lender's Notes, and all other amounts payable by Borrower to Agent and each Lender hereunder, shall be made in full without set-off or counterclaim and shall be made free and clear of and without deductions or withholdings of any nature by reason of any Reimbursable Taxes, all of which will be for the account of Borrower. In the event of Borrower being compelled by law or other regulations to make any such deduction or withholding from any payment to Agent or any Lender, Borrower shall pay on the due date of such payment, by way of additional interest, such additional amounts as are needed to cause the amount receivable by Agent or such Lender after such deduction or withholding to equal the amount which would have been receivable in the absence of such deduction or withholding. If Borrower should make any deduction or withholding as aforesaid, Borrower shall within 60 days thereafter forward to Agent or such Lender an official receipt or other official document evidencing payment of such deduction or withholding.

(c) If Borrower is ever required to pay any Reimbursable Tax with respect to any Fixed Rate Portion Borrower may elect, by giving to Agent and each Lender not less than three Business Days' notice, to convert all (but not less than all) of any such Fixed Rate Portion into a part of the Base Rate Portion, but such election shall not diminish Borrower's obligation to pay all Reimbursable Taxes.

(d) Each Lender represents and warrants to Agent and Borrower that such Lender is either (i) a corporation organized under the laws of the United States or a state thereof or (ii) entitled to complete exemption from United

States withholding tax imposed on or with respect to any payments, including fees, to be made to it pursuant to this Agreement and the other Loan Documents (x) under an applicable provision of a tax convention to which the United States is a party or (y) because it is acting through a branch, agency or office in the United States and any payment to be received by it hereunder is effectively connected with a trade or business in the United States. Upon becoming a party to this Agreement (whether by assignment or as an original signatory hereto), and in any event, from time to time upon the request of Agent or Borrower, each Lender which is not a corporation, organized under the laws of the United States or any state thereof shall deliver to Agent and Borrower such forms, certificates or other instruments as may be required by Agent in order to establish that such Lender is entitled to complete exemption from United States withholding taxes imposed on or with respect to any payments, including fees, to be made to such Lender under this Agreement and the other Loan Documents. Each Lender also agrees to deliver to Borrower and Agent and such other supplemental forms as may at any time be required as a result of the passage of time or changes in applicable law or regulation in order to confirm or maintain in effect its entitlement to exemption from U.S. withholding tax on any payments hereunder; provided, that the circumstances of Lender at the relevant time and applicable laws permit it to do so. If a Lender determines, as a result of any change in either (1) applicable law, regulation or treaty, or in any official application thereof or (2) its circumstances, that it is unable to submit any form or certificate that it is obligated to submit pursuant to this Section 3.17(d), or that it is required to withdraw or cancel any such form or certificate previously submitted, it shall promptly notify Borrower and Agent of such fact. If a Lender is organized under the laws of a jurisdiction outside the United States, and Borrower and Agent have not received forms, certificates or other instruments indicating to their satisfaction that all payments to be made to such Lender hereunder are not subject to United States withholding tax or Agent otherwise has reason to believe that such Lender is subject to U.S. withholding tax, Borrower shall withhold taxes from such payments at the applicable statutory rate. Each Lender shall indemnify and hold Borrower and Agent harmless from any United States taxes, penalties, interest and other expenses, costs and losses incurred or payable by them as a result of either (A) such Lender's failure to submit any form or certificate that it is required to provide pursuant to this Section 3.17(d) or (B) reliance by Borrower or Agent on any such form or certificate which such Lender has provided to them pursuant to this Section 3.17(d).

3.18. Capital Reimbursement. If either (a) the introduction or implementation of or the compliance with or any change in or in the interpretation of any law, rule or

regulation, or (b) the introduction or implementation of or the compliance with any request, directive or guideline from any central bank or other governmental authority (whether or not having the force of law) affects or would affect the amount of capital required or expected to be maintained by any Lender or any corporation controlling any Lender, then, upon demand by such Lender, Borrower will pay to Agent for the benefit of such Lender, from time to time as specified by such Lender, such additional amount or amounts which such Lender shall determine to be appropriate to compensate such Lender or any corporation controlling such Lender in light of such circumstances, to the extent that such Lender reasonably determines that the amount of any such capital would be increased or the rate of return on any such capital would be reduced by or in whole or in part based on the existence of such Lender's Loan or commitments under this Agreement.

ARTICLE FOUR

CONDITIONS PRECEDENT

4.01. Initial Advances. The effectiveness of this Agreement, and the obligation of each Lender to make the initial Advance on its Revolving Loan, are subject to the conditions precedent that on or before the Closing Date, Agent shall have received the following, each in form and substance and dated as of a date satisfactory to Agent and its counsel:

(a) Revolving Notes. Each of the duly executed renewal Revolving Notes.

(b) Guaranty Agreements. Guaranty agreements in the form of Exhibit "J" duly executed by each of CEC and Chesapeake Operating, Inc.

(c) Affiliate Subordination Agreement. The subordination agreement in the form of Exhibit "K" duly executed by each Company (the "Subordination Agreement").

(d) Opinion of Borrower's Counsel. Opinion(s) of legal counsel for Borrower substantially in the form of Exhibit "D".

(e) Notice of Borrowing. A Notice of Borrowing signed by the Chief Executive Officer.

(f) Resolutions. Resolutions duly adopted by the Board of Directors and accompanied by a certificate of the Secretary of each Company (other than Borrower).

(g) Incumbency. A signed certificate of the Secretary or the general partners of each Company, certifying the names of the officers authorized to sign each of the Loan Documents, and the other documents or certificates to be

delivered by such corporations pursuant to the Loan Documents together with the true signatures of each of such officers. Agent and Lenders may conclusively rely on each such certificate until Agent and Lenders receive a further certificate of the Secretary or general partner of respective Company canceling or amending the prior certificate and submitting the signatures of the officers named in such further certificate.

(h) Official Certificates. Certificates as to incorporation, existence and good standing for each Company (other than Borrower) issued by the Secretary of State (or other appropriate official) of the state of incorporation of each Company (other than Borrower) and, if and to the extent requested by Agent or its counsel, certificates of qualification and good standing (or other similar instruments) for each Company (other than Borrower) issued by the Secretary of State of each of the states wherein each Company (other than Borrower) is or should be qualified to do business as a foreign corporation. Certificates of existence for Borrower issued by the Secretary of State (or other appropriate official) of the state of organization of Borrower.

(i) Articles of Incorporation, Partnership Agreement, Charter and Bylaws. A copy of the Certificate or Articles of Incorporation of each Company (other than Borrower) and all amendments thereto, certified by the Secretary of each Company (other than Borrower) as being true, correct and complete (and in the case of CEC and Chesapeake Operating, Inc., certified by the Secretary of State of the state of incorporation of such Companies as being true, correct and complete), and a copy of the partnership agreement or bylaws of each Company and all amendments thereto, certified by the Secretary or a general partner of each Company, as the case may be, as being true, correct and complete.

(j) Security Documents. Mortgages, deeds of trust, security agreements, assignments of production and financing statements (or amendments and supplements to the mortgages, deeds of trust, security agreements, assignments of production and financing statements in connection with the Original Agreement) or similar documentation covering Oil and Gas Properties and such further documents and instruments as Agent may request, including without limitation a Mortgage, Deed of Trust, Assignment of Production, Security Agreement, Financing Statement (Personal Property Including Hydrocarbons) and Fixture Filing ("Mortgages") each in form and substance satisfactory to Lenders (collectively, "Security Documents") executed by Borrower, granting to Lenders (or Agent for the benefit of Lenders) first perfected Liens (subject to no other Liens other than Permitted Liens), on and in (i) all Oil and Gas Properties, (ii) all accounts receivable, inventory,

equipment and contract rights of Borrower, (iii) all proceeds and products of, from or with respect to the foregoing.

(k) Title and Perfection. Duly executed UCC-1 financing statements and all other requisite filing documents necessary to perfect the Liens granted pursuant hereto, in form satisfactory for filing with the appropriate filing offices.

(l) Contracts. Upon the request of the Agent, a copy of any material contracts of Borrower not previously delivered to Agent.

(m) Indenture Documents. Copies of the final and duly executed and delivered Indenture Documents.

(n) Insurance. Endorsements naming Lenders as additional insureds on all liability insurance policies and Agent as loss payee on all property insurance of Borrower which covers any Collateral and a detailed schedule of all insurance of Borrower attached hereto as Exhibit "E".

(o) Litigation Reports. Reports of counsel to Borrower describing all pending or threatened Litigation by or against any Company. There shall be no outstanding order or injunction of any Tribunal which would prohibit any of the transactions contemplated by the Loan Documents.

(p) Approvals. Evidence that all necessary approvals of Tribunals and others have been obtained.

(q) Compliance With Laws. Evidence that Borrower has complied with all Laws necessary to consummate the transactions contemplated by this Agreement.

(r) Payments of Financing Fees. Payment of all fees payable to Agent and each Lender set forth herein, and payment of all reasonable fees and expenses of or incurred by Agent and all reasonable fees and expenses of Thompson & Knight, P.C., counsel to Agent and other local or special counsel selected by Agent or its counsel to and including the Closing Date in connection with the negotiation and closing of the transactions contemplated herein.

(s) Additional Information. Such other information and documents as may be reasonably requested by Agent or its counsel.

4.02. All Advances. The obligations of each Lender to make any Advance under the Revolving Commitment (including its initial Advance) shall be subject to the performance by Borrower to the satisfaction of such Lender and its counsel of the following additional conditions precedent:

(a) No Defaults. As of the date of the making of such Advance, there exists no Default or Event of Default.

(b) Compliance with Agreement. Borrower and CEC have performed and complied with all agreements and conditions contained herein which are required to be performed or complied with by Borrower or CEC before or on the making of such Advance.

(c) No Material Adverse Change. As of the date of making such Advance, no change or event that might cause a Material Adverse Effect has occurred.

(d) Representations and Warranties. The representations and warranties contained in Article Five are true and correct in all material respects on the date of the making of such Advance, with the same force and effect as though made on and as of that date.

(e) Debtor Laws. No proceeding under any Debtor Laws has been commenced by or against any Company.

(f) Notice of Borrowing. Agent has received from Borrower a Notice of Borrowing at least three Business Days prior to any Advance that Borrower has designated as a Tranche or at least two days prior to any other Advance (other than the initial Advance).

4.03. Title and Letters-in-Lieu. Agent shall receive (i) evidence (including, without limitation, opinions of counsel to Borrower and/or special counsel to Agent with respect to perfection) that Borrower has good and defensible title to the Oil and Gas Properties and (ii) the initial executed letters described in Section 6.17, in form and substance satisfactory to Agent and its counsel, within sixty (60) days after the Closing Date.

ARTICLE FIVE

REPRESENTATIONS AND WARRANTIES

To induce each Lender to make its Loans, Borrower and CEC represent and warrant to Agent and each Lender that, at the time of execution hereof and after consummation of the transactions contemplated hereby:

5.01. Organization and Good Standing.

(i) Each Company (other than Borrower) is a corporation, duly organized and existing under the laws of the state of its organization. Each Company (other than Borrower) has the power and authority to own its properties and assets and to transact the business in which it is engaged and is duly qualified as a foreign corporation and in good standing in all states in which it is doing

business, except where failure to be qualified will not have a Material Adverse Effect.

(ii) Borrower is a limited partnership, duly formed and existing under the laws of the State of Oklahoma. Borrower has the power and authority to own its properties and assets and to transact business in which it is engaged and is duly qualified as a foreign partnership and in good standing in all states in which it is doing business, except where failure to be qualified will not have a Material Adverse Effect.

5.02. Authorization and Power.

(i) CEC has the corporate power and requisite authority, and has taken all corporate action necessary, to execute, deliver and perform the Loan Documents to be executed by it.

(ii) Borrower has the partnership power and requisite authority, and has taken all partnership action necessary, to execute, deliver and perform the Loan Documents to be executed by it.

5.03. No Conflicts or Consents. The execution and delivery of each of the Loan Documents by Borrower and CEC, and of the Subordination Agreement by each of the other Companies, the consummation of any of the transactions herein or therein contemplated, and compliance with the terms and provisions hereof or thereof to be executed and performed respectively by each such Company, will not contravene or materially conflict with: (a) any provision of Law to which any Company is subject; (b) any material judgment, license, order or permit applicable to any Company; (c) any material contract, lease, indenture, loan agreement, mortgage, deed of trust or other agreement or instrument to which any Company is a party or by which any Company may be bound, or to which any Company may be subject including the Indenture Documents binding on any Company; or (d) violate any provision of the charter, bylaws or partnership agreement, as the case may be, of any Company, which would in any case have a Material Adverse Effect. No consent, approval, authorization or order of any Tribunal or other Person is required in connection with the execution and delivery by any Company of the Loan Documents or consummation of the transactions contemplated hereby or thereby, except as disclosed in a separate certificate executed by Borrower and delivered contemporaneously herewith, all of which required consents, approvals and authorizations have been obtained or have been waived in writing by Majority Lenders. The representations and warranties by each Company in the Subordination Agreement are true and correct.

5.04. Enforceable Obligations. The Loan Documents have been duly executed and delivered by Borrower and CEC and are the

legal and binding obligations of Borrower and CEC, enforceable in accordance with their respective terms, except as limited by Debtor Laws.

5.05. No Liens. Except for Permitted Liens and except as disclosed in the Exhibits hereto, all of the assets of each Company are free and clear of all Liens and other adverse claims of any nature, each Company has good and indefeasible title to such assets, and there are no presently effective financing statements of record in any jurisdiction covering any tangible or intangible assets of each Company.

5.06. Financial Condition.

(a) CEC. CEC has delivered to each Lender a copy of the financial statements of CEC as of and for the fiscal year ended June 30, 1995, and for the period ended March 31, 1996. Such financial statements fairly present the Consolidated financial condition and results of operations of CEC and its Consolidated Subsidiaries as of such date and have been prepared in accordance with GAAP except as stated therein. As of the date hereof, there are no obligations, liabilities or Indebtedness (including contingent and indirect liabilities and obligations) which are (separately or in the aggregate) material and are not reflected in such financial statements or in the notes thereto; and no changes having a Material Adverse Effect have occurred since the date of such financial statements.

(b) Solvency. Upon giving effect to the issuance of the Notes, the execution of the Loan Documents by Borrower and the consummation of the transactions contemplated hereby, Borrower will be solvent (as such term is used in Debtor Laws).

5.07. Full Disclosure. There is no material fact that Borrower has not disclosed to Lenders which might reasonably be expected to have a Material Adverse Effect. Neither the financial statements referenced in Section 5.06(a) nor any certificate or other information delivered herewith or heretofore by Borrower to Lenders in connection with the negotiation, execution and consummation of this Agreement, contain any untrue statement of a material fact or omit to state any material fact necessary to keep the statements contained herein or therein from being misleading.

5.08. No Default. No event has occurred and is continuing which constitutes a Default or an Event of Default.

5.09. Material Agreements. No Company is in default in any material respect under any material partnership agreement, indenture, promissory note, contract, lease, loan agreement, mortgage, deed of trust, security agreement, license, permit, franchise or other agreement or obligation to which it is a party

or by which any of its properties is bound, and no Company is a party to or bound by any material contracts or agreements other than those disclosed to Agent and Lenders. The respective representations, warranties and covenants of CEC and Borrower, if any, set forth in the Offering Memorandum, the Indenture and the other Indenture Documents are true and correct as of the date thereof and there is no material fact that is not disclosed therein which might reasonably be expected to have a Material Adverse Effect.

5.10. No Litigation. Except for the Litigation described in the Litigation Reports, there is no Litigation pending, or to the knowledge of Borrower or CEC threatened, by or against any Company, and, to the best of Borrower's or CEC's knowledge, none of such Litigation, whether disclosed or undisclosed, will have a Material Adverse Effect. There are no outstanding injunctions or restraining orders prohibiting consummation of any of the transactions contemplated by the Loan Documents.

5.11. Use of Proceeds; Margin Stock. The proceeds of the Revolving Loans will be used solely for the purposes specified herein. None of such proceeds will be used for the purpose of purchasing or carrying any "margin stock" as defined in Regulations G, T, U or X, or for the purpose of reducing or retiring any Indebtedness which was originally incurred to purchase or carry a "margin stock" or for any other purpose which might constitute this transaction a "purpose credit" within the meaning of Regulations G, T, U or X. No Company has taken nor will any Company take any action which might cause any of the Loan Documents to violate Regulations G, T, U or X, or any other regulations of the Board of Governors of the Federal Reserve System or to violate Section 8 of the Securities Exchange Act of 1934 or any rule or regulation thereunder, in each case as now in effect or as the same may be in effect at the time such proceeds are used.

5.12. No Financing of Regulated Corporate Takeovers. No proceeds of the Revolving Loans will be used to acquire any security in any transaction which is subject to Sections 13 or 14 of the Securities Exchange Act of 1934, including particularly (but without limitation) Sections 13(d) and 14(d) thereof.

5.13. Taxes. All Tax returns required to be filed by any Company in any jurisdiction have been filed, and all Taxes upon any Company or upon any of their respective properties, income, franchises or Plans have been paid prior to the time that such Taxes could give rise to a Lien thereon, except for Contested Claims. There is no material proposed Tax assessment against any Company or any Plan, and there is no basis for such assessment.

5.14. Principal Offices. The actual and anticipated principal office and principal place of business of Borrower and

CEC is shown on Exhibit "F", and Borrower and CEC intend to maintain their respective principal records and books at such principal office. Borrower and CEC will give Agent prior written notice if their principal office is changed.

5.15. ERISA. (i) No Reportable Event has occurred and is continuing with respect to any Plan, (ii) PBGC has not instituted proceedings to terminate any Plan, (iii) none of CEC, any member of the Controlled Group nor any duly-appointed administrator of a Plan (A) has incurred any liability to PBGC with respect to any Plan other than for premiums not yet due and payable or (B) has instituted or intends to institute proceedings to terminate any Plan under Sections 4041 or 4041A of ERISA or withdraw from any Multi-Employer Pension Plan (as that term is defined in Section 3(37) of ERISA), (iv) no Plan of CEC has been maintained and funded in any material respect in violation of its terms or of any provisions of ERISA applicable thereto, and (v) no "accumulated funding deficiency" (as defined in Section 302(a)(2) of ERISA) exists with respect to any Plan.

5.16. Compliance With Law. Each Company is in compliance with all Laws, except where failure to comply will not have a Material Adverse Effect.

5.17. Government Regulation. No Company 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 Borrower of Indebtedness, including, but not limited to, Laws relating to common contract carriers or the sale of electricity, gas, steam, water or other public utility services.

5.18. Insider. No Company is, and no Person having "control" (as that term is defined in 12 U.S.C. Section 375(b)(5) or in regulations promulgated pursuant thereto) of any Company is, an "executive officer", "director" or "principal shareholder" (as those terms are defined in 12 U.S.C. Section 375(b) or in regulations promulgated pursuant thereto) of Agent or any Lender, of a bank holding company of which Agent or any Lender is a subsidiary or of any subsidiary of a bank holding company of which Agent or any Lender is a subsidiary.

5.19. Environmental Matters. Except as disclosed on Exhibit "G" or pursuant to Section 6.01(i), no Company (i) has received notice or otherwise learned of any Environmental Liability which would individually or in the aggregate have a Material Adverse Effect, arising in connection with (A) any non-compliance with or violation of the requirements of any Environmental Law or (B) the release or threatened release of any toxic or hazardous waste, substance or constituent, or other substance into the environment, (ii) has had any threatened or actual liability in connection with the release or threatened release of any toxic or hazardous waste, substance or

constituent, or other substance into the environment which would individually or in the aggregate have a Material Adverse Effect or (iii) has received notice or otherwise learned of any federal or state legislation evaluating whether any remedial action is needed to respond to a release or threatened release of any toxic or hazardous waste, substance or constituent into the environment for which any Company is or may be liable.

5.20. Subsidiaries. Exhibit "L" hereto lists all Subsidiaries of CEC as of the Closing Date.

5.21. Survival of Representations and Warranties. All representations and warranties in the Loan Documents shall survive delivery of the Notes and the making of the Loans and shall continue until one year after repayment of the Notes and the Obligations, and any investigation at any time made by or on behalf of Agent or any Lender shall not diminish Agent's or Lenders' right to rely thereon.

ARTICLE SIX

AFFIRMATIVE COVENANTS

So long as any Lender has any commitment to make Advances, and until payment in full of the Notes and the performance of the Obligations, Borrower and CEC agree that (unless Majority Lenders shall otherwise consent in writing):

6.01. Financial Statements, Reports and Documents. Borrower and CEC shall deliver or cause to be delivered the following to Agent and each Lender:

(a) Quarterly Statements. As soon as available, and in any event within 45 days after the end of each fiscal quarter, copies of the Consolidated and consolidating balance sheets of CEC as of the end of such quarter, and Consolidated and consolidating statements of income and cash flow of CEC for such quarter and for the portion of the fiscal year ending with such quarter, in each case setting forth in comparative form the figures for the corresponding periods of the preceding fiscal year, all in reasonable detail, and certified by the Chief Financial Officer as fairly presenting the Consolidated financial condition and results of operations of CEC and as having been prepared in accordance with GAAP (excluding the notes thereto), subject to year-end audit adjustments;

(b) Annual Statements. As soon as available and in any event within 90 days after the close of each fiscal year, copies of the Consolidated and consolidating balance sheets of CEC as of the close of such fiscal year, and the Consolidated and consolidating statements of income and cash flow of CEC for such fiscal year, in each case setting forth

in comparative form the figures for the preceding fiscal year, all in reasonable detail and accompanied by (i) an unqualified opinion of Price Waterhouse or such other independent public accountants of recognized national standing selected by CEC and reasonably satisfactory to Agent, to the effect that such financial statements have been prepared in accordance with GAAP and fairly present the Consolidated financial condition and results of operations of CEC, and (ii) a certificate executed by the Chief Executive Officer and Chief Financial Officer of CEC to the same effect as such opinion;

(c) Audit Reports. Promptly upon receipt thereof, one copy of each written report submitted to each Company by independent accountants in any annual, quarterly or special audit, review or examination, together with all report or letters to management or the board of directors of any Company;

(d) Compliance Certificate. Within 45 days after the end of each fiscal quarter of each fiscal year a certificate executed by the Chief Financial Officer stating that a review of the activities of the Companies during such quarter and during the portion of the fiscal year ending with such quarter has been made under such officer's supervision and that to the knowledge of such officer, Borrower and CEC have observed, performed and fulfilled each and every obligation and covenant contained in each of the Loan Documents (except to the extent properly waived as provided herein) and are not in Default under the Loan Documents, or, if any such Default has occurred, specifying the nature and status thereof;

(e) Accountants' Certificates. Concurrently with delivery of the statements set forth in Section 6.01(b), a certificate of the accountants who render an opinion with respect to the financial statements of CEC, stating that they have reviewed this Agreement and stating further whether, in making their audit, such accountants have become aware of any condition or event which would constitute a Default or an Event of Default under any of the terms or provisions of this Agreement and, if any such condition or event then exists, specifying the nature and period of existence thereof;

(f) Engineering and Production Information. As soon as available and within 45 days after the end of each month during the Revolving Commitment Period, (i) a report in form and substance satisfactory to Agent prepared by Borrower for each of the Oil and Gas Properties (net to Borrower's interest) detailing, both by well and in summary form, production volume by product, revenue by product, net lease operating expenses, capital expenditures, severance, ad valorem and other taxes on production, operating profit or

loss, and price information and further detailing any changes to any producing reservoir, production equipment, or producing well which would have a Material Adverse Effect and (ii) a report in form and substance satisfactory to Agent prepared by Borrower detailing a summary of revenues and expenses from operations other than the Oil and Gas Properties; and by September 20, 1996 and each September 1 thereafter, a reserve report ("Annual Reserve Report") (on a fiscal year basis) in form and substance satisfactory to Agent prepared by Williamson Petroleum Consultants, Inc. or another independent petroleum engineering firm acceptable to Majority Lenders reflecting an estimate of remaining reserves, annual production, cash flow and discounted value of Oil and Gas Properties to be included in the Borrowing Base; and by each March 1 hereafter, and contemporaneously with a request for any Incremental Redetermination Date, as to all properties to be included therein which were not evaluated in the immediately preceding Annual Reserve Report or any preceding incremental redetermination report delivered by Borrower, a reserve report (the "Interim Reserve Report") in form and substance satisfactory to Agent prepared by Williamson Petroleum Consultants, Inc. or another independent petroleum engineering firm acceptable to Majority Lenders reflecting an estimate of remaining reserves, annual production, cash flow and discounted value of such additional Oil and Gas Properties to be included in the Borrowing Base, together with a report prepared by Borrower, in form and substance acceptable to Agent, adjusting and updating the most recently delivered Annual Reserve Report.

(g) Insurance Report. Within 15 days after any material change in insurance coverage by the Companies, a report describing such change, and, within 30 days after the end of each fiscal year, a report describing the insurance coverage of the Companies;

(h) Litigation Reports. (i) Within 90 days after the end of each fiscal year, complete reports by counsel to the Companies, describing all Litigation of any Company and (ii) within 10 days after the end of each fiscal quarter (except the last) of each fiscal year in which a material change in reported Litigation has occurred or additional Litigation which, in the opinion of counsel to the Companies could have a Material Adverse Effect, has been threatened in writing or commenced, reports by counsel to the Companies, describing such material changes in or additions to the last annual Litigation Report;

(i) Environmental Notices. Notice to Agent and each Lender, in writing, promptly upon any Company's learning that any Company has received notice or otherwise learned of any claim, demand, action, event, condition, report or investigation indicating any potential or actual liability

arising in connection with (i) the non-compliance with or violation of the requirements of any Environmental Law which individually or in the aggregate might have a Material Adverse Effect, (ii) the release or threatened release of any toxic or hazardous waste, substance or constituent into the environment which individually or in the aggregate might have a Material Adverse Effect or which release any Company would have a duty to report to a Tribunal under an Environmental Law, or (iii) the existence of any Environmental Lien on any properties or assets of any Company;

(j) Aging of Payables and Receivables. Within 45 days after the end of each fiscal quarter, a report in form and substance satisfactory to Agent showing the aging of each outstanding account receivable and account payable of CEC and its Subsidiaries on a Consolidated basis.

(k) SEC and Other Reports. Promptly upon it becoming available, one copy of each financial statement, report, notice or proxy statement sent by any Company to stockholders or debt holders generally and of each regular or periodic report, registration statement or prospectus filed by any Company with any securities exchange or the Securities and Exchange Commission or any successor agency or any similar Tribunal of a foreign country, and of any material order issued by any Tribunal in any material proceeding to which any Company is a party;

(l) Gas Balancing; Hedging Contracts. Within 45 days after the end of each fiscal quarter, Borrower will provide to Agent and each Lender a report in form and substance satisfactory to Agent (i) itemizing all obligations in respect of gas imbalances or take or pay obligation of the Companies if such obligations, in the aggregate, exceed \$100,000.00 outstanding during such fiscal quarter, and (ii) itemizing each of the Company's outstanding interest, commodity or other swap, cap, floor or other hedging arrangements, all in such detail as may be requested by Agent;

(m) Other Information. Such other information concerning the business, properties or financial condition of any Company or any Plan as Agent or any Lender shall reasonably request;

(n) Reports to Trustee. Contemporaneously with the delivery to the Trustee pursuant to the terms of the Indenture of any annual reports, documents, information, other reports, certificates or opinions, a copy of such report, document, information, certificate or opinion; and

(o) Notice of Permitted Payment. After the occurrence and during the continuance of a Default, Borrower will

provide to each Lender a written report explaining any Permitted Payment of the type described in clause (iv) or (v) of the definition of Permitted Payments at least thirty days prior to such Permitted Payment being made, in such detail as such Lender shall require.

6.02. Payment of Taxes and Other Indebtedness. Except for Contested Claims, each Company will pay and discharge when due (i) all Taxes, (ii) all lawful claims (including claims for trade payables, labor, materials and supplies), which, if unpaid, might give rise to a Lien upon any of its property and (iii) all of its other Indebtedness, obligations and liabilities, except as prohibited hereunder.

6.03. Maintenance of Existence and Rights; Conduct of Business. Each Company will preserve and maintain its existence and all of their respective rights, privileges, licenses and franchises necessary or desirable in the normal conduct of its business, and conduct its business in an orderly and efficient manner consistent with good business practices and in accordance with all valid regulations and orders of any Tribunal, except when failure to so preserve, maintain or conduct will not have a Material Adverse Effect.

6.04. Notice of Default. Borrower or CEC shall furnish to Agent and each Lender, immediately upon becoming aware of the existence of any condition or event which constitutes an Event of Default, written notice specifying the nature and period of existence thereof and the action which Borrower or CEC is taking or proposes to take with respect thereto.

6.05. Other Notices. Borrower or CEC will promptly notify Agent and each Lender of (i) any material adverse change in the financial condition or business of any Company, (ii) any acceleration of the maturity of any material Indebtedness owing by any Company (a "material" Indebtedness being one with a monetary obligation of \$500,000 or more or one with respect to which a default thereunder would have a Material Adverse Effect), (iii) any material adverse claim against or affecting any Company, (iv) the commencement of, and/or any material determinations in, any Litigation which could have a Material Adverse Effect and (v) any event or condition which may reasonably be expected to result in a default under any of the Indenture Documents.

6.06. Compliance with Loan Documents. Borrower and CEC will each promptly comply with any and all covenants and provisions of the Loan Documents applicable to such Company and will cause each other Company to promptly comply with any and all covenants and provisions of the Subordination Agreement applicable to such Company.

6.07. Compliance with Material Agreements. Each Company will comply in all material respects with all material contracts,

leases, agreements, indentures, mortgages or documents binding on it or affecting its properties or business if noncompliance could have a Material Adverse Effect, including, without limitation, the Indenture Documents.

6.08. Operations and Properties. Each Company will act prudently and in accordance with customary industry standards in managing and operating its assets, properties, business and investments and will keep in good working order and condition, ordinary wear and tear excepted, all of its assets and properties which are necessary to the conduct of its business, if failure to do any of the foregoing might have a Material Adverse Effect.

6.09. Books and Records. During all business hours, each Company will give any representative of Agent access to and permission for such representative to examine, copy or make excerpts from any and all books, records and documents in the possession of such Company that relate to its affairs, and to inspect any of the properties of such Company. Each Company will maintain complete and accurate books and records of its transactions in accordance with GAAP.

6.10. Compliance with Law. Each Company will comply with all Laws, a violation of which could have a Material Adverse Effect.

6.11. Insurance. Each Company (i) will maintain (A) worker's compensation or similar insurance as may be required by applicable Law, (B) public liability insurance against claims for personal injury, death or property damage suffered upon, in or about any premises occupied by such Company or occurring as a result of the ownership, maintenance or operation by such Company of any automobile, truck or other vehicle or as the result of services rendered by it, all such insurance to be maintained with financially sound and reputable insurance companies against such casualties, risks and contingencies, and in such types and amounts, as are consistent with customary practices and standards of companies engaged in similar businesses, (ii) will name Lenders as additional insureds on all such liability insurance and Agent as loss payee on all such property insurance which covers any Collateral and (iii) will deliver copies of the policies and endorsements for such insurance to Agent promptly after issuance or renewal of each.

6.12. ERISA Compliance. Each Company will (i) make prompt payment of all contributions required under all Plans and required to meet the minimum funding standard set forth in ERISA with respect to its Plans, (ii) within 30 days after the filing thereof, furnish to Agent and each Lender each annual report/return (Form 5500 Series), as well as all schedules and attachments required to be filed with the Department of Labor and/or the Internal Revenue Service pursuant to ERISA, and the regulations promulgated thereunder, in connection with each of its Plans for each Plan year, and (iii) notify Agent immediately

of any fact, including, but not limited to, any Reportable Event arising in connection with any of its Plans, which might constitute grounds for termination thereof by the PBGC or for the appointment by the appropriate United States District Court of a trustee to administer such Plan, together with a statement, if requested by Agent, as to the reason therefor and the action, if any, proposed to be taken with respect thereto.

6.13. Further Assurances. Each Company will make, execute or endorse, and acknowledge and deliver or file or cause the same to be done, all such vouchers, invoices, notices, certifications and additional agreements, undertakings, conveyances, deeds of trust, mortgages, security agreements, transfers, assignments, financing statements or other assurances, and take any and all such other action, as Agent may, from time to time, deem reasonably necessary or proper in connection with any of the Loan Documents and the obligations of such Company thereunder, or for better assuring and confirming unto Agent all or any part of the security for any of such obligations.

6.14. Subordination of Affiliate Obligations. Borrower and CEC agree and covenant until such time as (a) Lenders have received full and final payment of the Notes and (b) all Obligations have been performed in their entirety, all indebtedness, liability and obligations of any type (other than (i) salaries of Affiliates who are employees of a Company, (ii) revenue distributions to Affiliates who own working or mineral interests or overriding royalty interests in any land or leases which are operated by any Company and (iii) payments described in clause (i) of the definition of Permitted Payments) to any Affiliate of Borrower (the "Affiliate Obligations"), shall be subordinate and inferior to all Indebtedness, obligations and liability of Borrower to Agent and Lenders as more particularly set forth in Exhibit "K". Upon the acceleration of any of the Obligations, no Affiliate Obligation may be paid by Borrower until the Obligations have been repaid in full in cash. If, after the acceleration of any of the Obligations any Company or any Affiliate of Borrower receives payment on any Affiliate Obligations, such Company or Affiliate shall hold such proceeds in trust for Lenders and shall immediately remit same to Agent for application against the Obligations.

6.15. Maintenance of Corporate Identity. (i) Each Company shall maintain separate corporate records, books and accounts; (ii) each Company shall observe the formal legal, financial and accounting requirements necessary for the maintenance of such Company as a separate legal entity, and (iii) all monies and funds advanced and to be advanced to or on behalf of any Company by any Affiliates thereof (other than another Company), pursuant to a loan or otherwise, will be evidenced by valid, binding and enforceable written obligations to repay such monies and funds either on demand or at a future date and will include a rate of return to the Affiliate advancing the same at an interest rate not less than the Adjusted Base Rate, except for

certain minor operating expenses, none of which are material in amount and none of which relate to significant transactions.

6.16. Liens on Oil and Gas Properties Acquired in the Future. Borrower will identify on each Annual Reserve Report and each Interim Reserve Report, or on a separate schedule, such individual wells with respect to which the oil, gas and mineral lease(s) is not then currently subject to a Mortgage. On or before each Redetermination Date and each Incremental Redetermination Date, Borrower will except with respect to wells of a de minimis value as specified by Agent from time to time and (ii) execute and deliver Mortgages granting to Agent for the benefit of Lenders first perfected Liens (subject to no other Liens except Permitted Liens) on and in the oil, gas and mineral lease(s) covering each such well which is to be included in the Borrowing Base, and such properties shall then for all purposes be deemed to be Oil and Gas Properties. On the later to occur of (i) each Redetermination Date or Incremental Redetermination Date or (ii) 45 days after Agent notifies Borrower of which wells Agent shall require title information for, Borrower will provide title opinions or other title information acceptable to Majority Lenders in form satisfactory to Majority Lenders with respect to such wells and leases.

6.17. Clearing Account. Upon the request of Agent (at the direction of Majority Lenders), Borrower shall promptly cause all purchasers of production of oil, gas and other hydrocarbons from the Oil and Gas Properties to remit all payments therefor into a controlled access (Agent only) account at Agent (the "Clearing Account"). So long as no Default or Event of Default has occurred and is continuing, Agent will, from time to time, transfer funds from the Clearing Account at Borrower's direction, provided, however, that Agent will have the right to reserve funds in the Clearing Account in an amount sufficient to pay the next principal and/or interest payment due on the Notes. On the execution of this Agreement, and from time to time hereafter upon the request of Agent, Borrower shall execute and deliver to Agent letters addressed to purchasers of production instructing them to remit such payment to the Clearing Account. Further, within forty-five (45) days after the end of each fiscal quarter, Borrower will deliver a report to Agent listing the names and addresses of all purchasers of production and such other information as Agent shall request.

6.18. Hedging Contracts. No Company will be a party to or in any manner liable on any forward, future, swap or hedging contract, or enter into any sale of future production except contracts entered into solely with the purpose and effect of fixing prices on oil and/or gas expected to be produced by such Company provided the contract is with a counter party of recognized satisfactory financial standing and is not for volumes in excess of projected future production for the corresponding periods of the contract.

6.19. Use of Distributions. After the occurrence and during the continuance of a Default, CEC will use all dividends, distributions and Permitted Payments made by Borrower or any Subsidiary of Borrower to CEC and all income and other proceeds derived therefrom for the following purposes only:

(a) to make scheduled payments when due of the Indenture Notes; and

(b) to pay an amount equal to CEC's income tax obligation to the extent, if any, CEC has paid or will thereupon pay in cash, income tax or state franchise tax in a like amount; provided such amount does not exceed the highest marginal Federal corporate income tax rate in effect with respect to the relevant income of Borrower's taxable income for the relevant period plus any applicable state franchise tax amount.

ARTICLE SEVEN

NEGATIVE COVENANTS

So long as any Lender has any commitment to make Advances hereunder, until payment in full of the Notes and the performance of the Obligations, Borrower and CEC agree that (unless Majority Lenders shall otherwise consent in writing):

7.01. Limitation on Indebtedness. No Company will incur, create, contract, assume, have outstanding, permit to exist, guarantee or otherwise be or become, directly or indirectly, liable in respect of any Indebtedness, except (i) the Obligations, (ii) Indebtedness of such Company described on Exhibit "H," (iii) current liabilities of such Company for Taxes and assessments incurred in the ordinary course of its business, (iv) the Indebtedness of CEC evidenced by the Indenture Notes and the guaranties by the Subsidiary Guarantors thereof, (v) Indebtedness incurred by the Companies (other than Borrower and CEC) in the ordinary course of business, not in excess of an aggregate amount outstanding at any time equal to \$5,000,000 for all Companies (other than Borrower and CEC), (vi) Indebtedness of such Company to another Company, (vii) Debt arising under forward, future, swap or hedging contracts permitted under Section 6.18. (Indebtedness described in clauses (i) through (vii) is collectively referred to as the "Permitted Indebtedness"). No Company shall make any Guaranty or other undertaking commonly known as "comfort" or "keep well" letters, except for (i) such undertakings on behalf of other Companies to support Indebtedness and (ii) such undertakings by CEC to support trade payables otherwise permitted by this Agreement.

7.02. Negative Pledge. No Company will (i) grant, create, incur, permit or suffer to exist any Lien upon any of its property or assets, including, without limitation, the

Collateral, now owned or hereafter acquired, except for Permitted Liens, (ii) enter into any sale-and-lease back transaction, or (iii) agree with any Person (other than in the Loan Documents) that such Company will not grant, create, incur, permit or suffer to exist any Lien upon any of its property or assets. Anything in the foregoing or elsewhere in the Loan Documents to the contrary notwithstanding, it is understood that no Liens, other than Permitted Liens, are permitted on or with respect to any of the Collateral.

7.03. Limitation on Dividends and Restricted Payments. Borrower will not, and will not permit its Subsidiaries to, directly or indirectly declare or make, or incur any liability to make, any Restricted Payments to any other Company (including but not limited to CEC) other than Permitted Payments made with cash or Temporary Cash Investments. CEC will not, and will not permit its Subsidiaries to, directly or indirectly declare or make, or incur any liability to make any Dividends or Redemptions in respect to capital stock of CEC. Borrower will not, and will not permit its Subsidiaries to, make any Permitted Payments (other than payments described in clause (i) of the definition of Permitted Payments) if the maturity of any Obligation has been accelerated at the time of such proposed Permitted Payment.

7.04. Limitation on Investments. No Company will make nor have outstanding any Investments in any Person, except (i) Temporary Cash Investments, (ii) Investments in the oil and gas business or otherwise contemplated or permitted by other provisions of this Agreement, (iii) Investments in wholly owned Subsidiaries in amounts reflected in the financial statements set forth in Section 5.06, (iv) Investments in another Company which do not violate Section 7.05, (v) the Investment in Chesapeake Gas Development Corporation as in effect on the Closing Date, (vi) the Investment in Chesapeake Energy Marketing, Inc. as in effect on the Closing Date, and (vii) the Investment in Peak USA Energy Services, Ltd. as in effect on the Closing Date.

7.05. Affiliate Transactions. Except in the ordinary course of business and in an arms length transaction, no Company will enter into any transaction with, nor pay any management or other fees or compensation to, any Affiliate of any Company.

7.06. Limitation on Sale of Assets. No Company will sell, assign, lease, sublease or discount any of its assets other than (i) sales of hydrocarbons in the ordinary course of business (ii) sales or other dispositions of obsolete equipment which is either no longer needed for the ordinary business of such Company or is being replaced by equipment of at least comparable value and utility, (iii) sales or other dispositions of equipment which is not used by such Company in connection with its primary business operations, (iv) sales or transfers of oil, gas and mineral fee and leasehold acreage upon which there exists no well capable of production of oil, gas or other hydrocarbons in paying quantities, (v) sales or other dispositions not otherwise

permitted hereunder, not to exceed \$500,000 in any single transaction and \$1,000,000 in the aggregate in any fiscal year and (vi) sales or assignments by Borrower to Chesapeake Gas Development Corporation of certain subject interests, as permitted by Majority Lenders from time to time.

7.07. Fiscal Year and Accounting Method. No Company will change its fiscal year or method of accounting.

7.08. Liquidations, Mergers, Consolidations and Acquisitions of Substantial Assets. No Company will dissolve, liquidate, become a party to any merger or consolidation or acquire by purchase, lease or merger all or substantially all of the assets or any capital stock of any Person other than a Consolidation between or among Companies (other than Borrower); provided that if CEC is a party to any such consolidation with another Company, CEC must be the surviving business entity.

7.09. No Amendments of Charter or Bylaws. No Company will amend its charter, bylaws or partnership agreement in any respect which could have a Material Adverse Effect.

7.10. Environmental Matters. Except in compliance with Environmental Laws, and except for non-compliance thereof which will not give rise to Environmental Liability in excess of \$10,000 in the aggregate at any time outstanding, no Company will (i) cause nor permit any Hazardous Material (as defined in this Section 7.10) to be placed, held, located or disposed of on, under or at any property now or hereafter owned, leased or otherwise controlled directly or indirectly by any Company (for purposes of this Section 7.10, the "Property") or (ii) permit the Property to ever be used (whether by such Company or any other Person) as a dump site or storage site (whether permanent or temporary) for any Hazardous Material. "Hazardous Material" means any hazardous, toxic or dangerous waste, substance or material defined as such in any Environmental Laws. Without limitation of Agent's and each Lender's Rights under the Loan Documents, Agent, each Lender and their representatives shall have the right, but not the obligation, to enter upon the Property or take such other actions as Agent or such Lender deems necessary or advisable to cleanup, remove, resolve or minimize the impact of, or otherwise deal with, any Hazardous Discharge (as defined in this Section 7.10) or Environmental Complaint (as defined in this Section 7.10) upon Agent's or such Lender's receipt of any notice from any Tribunal or other Person, asserting the existence of any Hazardous Discharge or Environmental Complaint on or pertaining to the Property which, if true, could result in Environmental Liability against any Company, Agent or such Lender or otherwise which, in the sole opinion of Agent or such Lender, could jeopardize any of Agent's or such Lender's present or future Liens against the Property. All costs and expenses incurred by Agent or any Lender and its representatives in the exercise of any such Rights shall become part of the Obligations and be payable upon demand, together with

interest thereon at the Default Rate. "Hazardous Discharge" means the happening of any event involving the use, storage, spill, discharge or cleanup of any Hazardous Material that violates Environmental Laws and might cause a Material Adverse Effect. "Environmental Complaint" means any complaint, order, citation or notice with regard to air emissions, water discharges, noise emissions or any other environmental, health or safety matter affecting any Company or the Property.

7.11. Indenture Notes. No Company will directly or indirectly, (i) amend or modify any terms of any of the Indenture Documents (other than amendments or modifications of the type permitted under Article Nine of any Indenture which would not otherwise be a Default or Event of Default hereunder), (ii) repurchase, redeem, prepay, whether optional or, subject to clause (iii) hereof, mandatory, or defease any of the Indenture Notes (other than scheduled payments of accrued interest) or (iv) take any action or fail to take any action which would obligate CEC or any Company to repurchase, redeem or prepay any of the Indenture Notes other than scheduled payments of accrued interest and the scheduled mandatory redemption of 25% of the original principal amount of the First Indenture Notes on March 1 of 1998, 1999, 2000 and 2001.

7.12. Permitted Transfers. Notwithstanding anything to the contrary herein contained, no provision of Section 6.14, Section 7.03, Section 7.04, Section 7.05, or Section 7.06 shall be construed to prohibit a Permitted Payment unless the maturity of any Obligation has been accelerated at the time of such proposed Permitted Payment.

7.13. Weighted-Average Payable Maturity. The weighted-average maturity of all Indebtedness of the Companies incurred on ordinary terms to vendors, suppliers and other Persons providing goods and services used by the Companies in the ordinary course of business (excluding vendors and suppliers with which the Companies have written agreements providing extended payment terms not in excess of 100 days) shall not exceed 75 days at any time.

ARTICLE EIGHT

EVENTS OF DEFAULT

8.01. Events of Default. An "Event of Default" shall exist if any one or more of the following events shall occur and be continuing:

- (a) Failure or refusal to pay when due any principal of, or interest on, any Note, or any fee, expense or other payment required hereunder, including any prepayment pursuant to Section 3.05; or

(b) Any representation or warranty made under any of the Loan Documents, or in any certificate or statement furnished or made to Agent or any Lender pursuant hereto or in connection herewith or with the Loans hereunder, is untrue or inaccurate in any material respect as of the date on which such representation or warranty is made; or

(c) Failure to perform or a breach of any of the covenants or agreements contained in this Agreement (other than in Article Seven and in Section 3.05) or in any of the other Loan Documents and such failure to perform or breach shall remain unremedied for a period of 30 days; or

(d) Failure to perform or a breach of any of the covenants or agreements contained in Article Seven and in Section 3.05;

(e) (i) any default in the payment of any Indebtedness in excess of \$500,000 of any Company or (ii) any breach or default in the observance or performance of any note, loan agreement, credit agreement or other agreement or instrument relating to, evidencing, governing or securing any such Indebtedness in excess of \$500,000, which breach or default continues for more than the period of grace, if any, specified therein or (iii) any such Indebtedness in excess of \$500,000, including, without limitation, the Indenture Notes, becomes due before its stated maturity by acceleration of the maturity thereof; or

(f) Any Company shall (i) apply for or consent to the appointment of a receiver, trustee, custodian, intervenor or liquidator of any Company or of all or a substantial part of its assets, (ii) file a voluntary petition in bankruptcy, admit in writing that it is unable to pay its debts as they become due or generally not pay its debts as they become due, (iii) make a general assignment for the benefit of creditors, (iv) file a petition or answer to seek reorganization or an arrangement with creditors or to take advantage of any Debtor Laws, (v) file an answer admitting the material allegations of or consenting to, or default in answering a petition filed against it in any bankruptcy, reorganization or insolvency proceeding or (vi) take corporate action for the purpose of effecting any of the foregoing; or

(g) An involuntary petition or complaint is filed against any Company seeking bankruptcy or reorganization of any Company or the appointment of a receiver, custodian, trustee, intervenor or liquidator of it, or all or substantially all of the assets of any Company; or an order, order for relief, judgment or decree shall be entered by any court of competent jurisdiction or other competent authority approving a petition or complaint seeking reorganization of any Company or appointing a receiver, custodian, trustee,

intervenor or liquidator of CEC or Borrower, or of all or substantially all of its assets, and such proceeding or case shall continue undismitted, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 60 days; or

(h) Any final judgment for the payment of money in excess of the sum of \$250,000 shall be rendered against any Company and such judgment shall not be satisfied or 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

(i) Both (i) and (ii) following shall occur: (i) either (A) proceedings have been instituted to terminate, or a notice of termination has been filed with respect to, any Plan (other than a multi-employer pension plan) by any Company, any member of the Controlled Group, PBGC or any representative of any thereof, or any such Plan shall be terminated, in each case under Section 4041 or 4042 of ERISA, or (B) a Reportable Event, the occurrence of which would cause the imposition of a Lien under Section 4068 of ERISA, has occurred with respect to any Plan (other than a multi-employer pension Plan) and continues for a period of 60 days, and (ii) the estimated liability under Section 4062 of ERISA to the PBGC and to the trustee appointed under Section 4042 of ERISA under the Plan or Plans subject to such event exceeds 10% of the net worth of CEC at such time; or

(j) Any or all of the following events shall occur with respect to any multi-employer pension plan to which any Company contributes or contributed on behalf of its employees: (i) any Company incurs a withdrawal liability under Section 4201 of ERISA, or (ii) any such plan is "in reorganization" as that term is defined in Section 4241 of ERISA, or (iii) any such Plan is terminated under Section 4041A of ERISA and the aggregate liability likely to be incurred by any Company as a result of all or any of the events specified in claims (i), (ii) and (iii) above occurring, shall have a Material Adverse Effect; or

(k) Either (i) any principal amount of any of the Indenture Notes shall be subject to a required repurchase, redemption or prepayment (including without limitation under or pursuant to Article Three, Article Four or Article Eight of any Indenture) other than the scheduled mandatory redemption of 25% of the original payment amount of the First Indenture Notes on March 1 of 1998, 1999, 2000 and 2001 or (ii) an Event of Default (as defined in any Indenture) shall occur under any Indenture; or

(l) Debt under any of the Indenture Documents has been accelerated prior to the scheduled maturity thereof; or

(m) CEC ceases to own, directly or indirectly, a 100% ownership interest in Borrower; or

(n) Borrower is terminated or dissolved.

8.02. Lenders' Knowledge of Events of Default. No Lender shall be deemed to have knowledge of the occurrence of any Default or Event of Default unless such Lender has received written notice from Borrower specifying such Default or Event of Default. In the event Agent or any Lender receives such notice of the occurrence of a Default or an Event of Default, Agent or such Lender shall give notice thereof to Borrower.

8.03. Remedies Upon Event of Default. If an Event of Default occurs and is continuing, then Agent may and upon written instructions from Majority Lenders, Agent shall exercise any one or more of the following Rights, and any other Rights provided in any of the Loan Documents: (i) terminate the commitments to lend hereunder, (ii) declare the principal of, and all interest on, the Notes and any other obligations hereunder to be forthwith due and payable, whereupon the same shall forthwith become due and payable without presentment, demand, protest, notice of default, notice of acceleration or of intention to accelerate or other notice of any kind, all of which Borrower hereby expressly waives, anything contained herein or in the Notes to the contrary notwithstanding, (iii) reduce any claim to judgment and/or (iv) without notice of default or demand, pursue and enforce any of Agent's or Lenders' Rights under the Loan Documents or otherwise provided under or pursuant to any applicable Law or agreement; provided, however, that if any Event of Default specified in Sections 8.01(f), (g), (l) or (n) shall occur, the principal of, and all interest then accrued on, the Notes and other liabilities hereunder shall thereupon become due and payable automatically and concurrently therewith, and Lenders' obligations to lend shall immediately terminate hereunder, without any further action by Agent or Lenders and without presentment, demand, protest, notice of default, notice of acceleration or of intention to accelerate or other notice of any kind, all of which Borrower hereby expressly waives.

8.04. Performance by Agent. Should Borrower or CEC fail to perform any covenant, duty or agreement contained in any of the Loan Documents, Agent may perform or attempt to perform such covenant, duty or agreement on behalf of Borrower or CEC. Agent will give Borrower notice of such performance or attempted performance. Borrower and CEC shall, at the request of Agent, promptly pay any amount expended in such performance or attempted performance to Agent at its principal office, together with interest thereon at the Default Rate. Notwithstanding the foregoing, it is expressly understood that Agent assumes no liability or responsibility for the performance of any duties of

any Company hereunder or under any of the Loan Documents or any other documents, or other control over the management and affairs of any Company.

ARTICLE NINE

AGENT

9.01. Appointment and Authority. Each Lender hereby irrevocably authorizes Agent, and Agent hereby undertakes, to receive payments of principal, interest and other amounts due hereunder as specified herein, to hold and deal with all Liens securing the Obligations, 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 Lenders is only that of one commercial bank acting as administrative 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 Lender to Agent of any Default or Event of Default, Agent shall promptly notify each Lender thereof.

9.02. 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 the Companies), 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 Lender and shall not be responsible to any Lender 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 Company or to inspect the property (including the books and records) of any Company; (e) shall not be responsible to any Lender 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 the Companies and 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.

9.03. Lenders' Credit Decisions. Each Lender acknowledges that it has, independently and without reliance upon Agent or any other Lender, 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 Lender also acknowledges that it will, independently and without reliance upon Agent or any other Lender 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.

9.04. 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 ANY OF THE COLLATERAL, 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). THE FOREGOING INDEMNIFICATION SHALL APPLY WHETHER OR NOT SUCH LIABILITIES AND COSTS ARE IN ANY WAY OR TO ANY EXTENT 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 10.05 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 1.01 BUT ALSO TO EACH DIRECTOR, OFFICER, AGENT, ATTORNEY, EMPLOYEE, REPRESENTATIVE AND AFFILIATE OF SUCH PERSON.

9.05. 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 of the Companies or their Affiliates, all as if it were not Agent hereunder and without any duty to account therefor to any other Lender.

9.06. 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.

9.07. Benefit of Article Nine. The provisions of this Article (other than the following Section 9.08) are intended solely for the benefit of Agent and Lenders, and no Company shall be entitled to rely on any such provision or assert any such provision in a claim or defense against Agent or any Lender. Agent and Lenders may waive or amend such provisions as they desire without any notice to or consent of Borrower or any other Company.

9.08. 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 Nine 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 TEN

MISCELLANEOUS

10.01. Strict Compliance; Independence of Covenants. If any action or failure to act by Borrower or CEC violates any covenant or obligation of Borrower or CEC contained herein, then such violation shall not be excused by the fact that such action or failure to act would otherwise be required or permitted by any covenant (or exception to any covenant) other than the covenant violated.

10.02. Amendments and Waivers. No failure or delay (whether by course of conduct or otherwise) by Agent or any Lender in exercising any right, power or remedy which Agent or such Lender 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 Agent or such Lender 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 Company shall in any case of itself entitle any Company 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,

by Agent 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. 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 Four (provided that Agent may in its discretion withdraw any request it has made under Section 4.01(s)), (2) subject such Lender to any additional obligations, (3) reduce any fees hereunder, or the principal of, or interest on, such Lender's Notes, (4) postpone any date fixed for any payment of any fees hereunder, or principal of, or interest on, such Lender's Notes, (5) amend the definition herein of "Majority 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, (6) amend any of the provisions of Article IX, (7) release Borrower from its obligation to pay such Lender's Note or (8) release any guarantor from its payment obligations to such Lender.

10.03. Accounting Reports. All financial reports furnished by Borrower and CEC pursuant to this Agreement shall be prepared in such form and such detail as shall be reasonably satisfactory to Agent, shall be prepared in accordance with GAAP and, as to CEC, shall be the same financial reports as those furnished to CEC's shareholders.

10.04. No Implied Waivers of Rights. No failure to exercise, and no delay in exercising, on the part of Agent or any Lender, any Right shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other Right. No notice or demand given in any case shall constitute a waiver of the right to take other action in the same, similar or other instances without such notice or demand.

10.05. Payment of Expenses: Indemnity.

(a) Borrower and CEC, jointly and severally, agree to pay all costs and expenses (i) of Agent and each Lender (including, without limitation, all reasonable attorneys' fees, costs and expenses of Agent or such Lender's legal counsel) incurred in connection with the negotiation, preparation, execution and delivery of the Loan Documents and any and all renewals, amendments, waivers and modifications thereto and any and all participation, sales and assignments of interests in the Notes and (ii) of Agent and each Lender in connection with the preservation and enforcement of Agent's and Lenders' Rights after an Event of Default under the Loan Documents, specifically including, without limitation, all costs and expenses incurred with respect to any bankruptcy, insolvency or reorganization proceeding, regardless of whether Agent or Lenders ultimately prevail in such bankruptcy, insolvency or

reorganization proceeding. Borrower and CEC, jointly and severally, shall indemnify and hold harmless Agent and each Lender against any transfer taxes, excise taxes, documentary taxes, assessments or charges made by any Tribunal or any other Person by reason of the execution and delivery of this Agreement, the Notes or any other Loan Document, any modifications thereof or in connection with the Collateral.

(b) BORROWER AND CEC, JOINTLY AND SEVERALLY, SHALL INDEMNIFY, DEFEND AND SAVE HARMLESS, AGENT, EACH LENDER AND ITS OFFICERS, DIRECTORS, EMPLOYEES, AGENTS AND ATTORNEY, AND EACH OF THEM (THE "INDEMNIFIED PARTIES"), FROM AND AGAINST ALL CLAIMS, ACTIONS, SUITS AND OTHER LEGAL PROCEEDINGS, DAMAGES, COSTS, INTEREST, CHARGES, COUNSEL FEES AND OTHER EXPENSES AND PENALTIES WHICH ANY OF THE INDEMNIFIED PARTIES MAY SUSTAIN OR INCUR BY REASON OF OR ARISING OUT OF THE EXECUTION AND DELIVERY OF ANY OF THE LOAN DOCUMENTS, THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED THEREBY OR HEREBY (COLLECTIVELY, THE "SUBJECT TRANSACTIONS"), INCLUDING, WITHOUT LIMITATION, DAMAGES, COSTS AND EXPENSES INCURRED BY ANY OF THE INDEMNIFIED PARTIES IN INVESTIGATING, PREPARING FOR, DEFENDING AGAINST, OR PROVIDING EVIDENCE, PRODUCING DOCUMENTS, OR TAKING ANY OTHER ACTION IN RESPECT OF ANY COMMENCED OR THREATENED LITIGATION UNDER ANY FEDERAL SECURITIES LAW OR ANY OTHER LAW OF ANY JURISDICTION OR AT COMMON LAW WHICH IS ALLEGED TO ARISE OUT OF OR IS BASED UPON:

(i) THE CLAIMS OF ANY PERSON THAT, IN CONNECTION WITH THE SUBJECT TRANSACTIONS, ANY OF THE INDEMNIFIED PARTIES HAS VIOLATED ANY FIDUCIARY OR CONFIDENTIALITY RESPONSIBILITIES, OR ANY REPRESENTATIONS, WARRANTIES OR COVENANTS, EXPRESS OR IMPLIED, MADE OR ALLEGED TO HAVE BEEN MADE BY ANY OF THE INDEMNIFIED PARTIES, TO OR IN FAVOR OF SUCH PERSON;

(ii) ANY UNTRUE STATEMENT OR ALLEGED UNTRUE STATEMENT OF ANY MATERIAL FACT BY BORROWER OR CEC OR ANY AFFILIATE OF BORROWER OR CEC OR ANY DOCUMENT OR SCHEDULE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION OR ANY OTHER GOVERNMENTAL BODY;

(iii) ANY OMISSION OR ALLEGED OMISSION TO STATE ANY MATERIAL FACT REQUIRED TO BE STATED IN SUCH DOCUMENT OR SCHEDULE OR NECESSARY TO MAKE THE STATEMENTS MADE THEREIN NOT MISLEADING IN LIGHT OF THE CIRCUMSTANCES UNDER WHICH MADE;

(iv) ANY WITHDRAWALS, TERMINATION OR CANCELLATION OF ANY AGREEMENT PURSUANT TO WHICH BORROWER INTENDS TO ACQUIRE ASSETS;
OR

(v) ANY OTHER CLAIMS OF ANY NATURE WHATSOEVER ARISING FROM OR RELATED TO THE SUBJECT TRANSACTIONS.

(c) BORROWER AND CEC, JOINTLY AND SEVERALLY, SHALL INDEMNIFY, DEFEND AND SAVE HARMLESS THE INDEMNIFIED PARTIES FROM AND AGAINST ALL CLAIMS, ACTIONS, SUITS AND OTHER LEGAL PROCEEDINGS, DAMAGES, COSTS, INTEREST, CHARGES, COUNSEL FEES AND OTHER EXPENSES AND PENALTIES WHICH ANY OF THE INDEMNIFIED PARTIES MAY SUSTAIN OR INCUR BY REASON OF OR ARISING OUT OF ANY ENVIRONMENTAL LIABILITY ARISING FROM OR RELATED TO THE SUBJECT TRANSACTIONS.

(d) THIS AGREEMENT IS INTENDED TO PROTECT AND INDEMNIFY THE INDEMNIFIED PARTIES AGAINST ALL RISKS INVOLVED IN THE SUBJECT TRANSACTIONS INCLUDING, WITHOUT LIMITATION, THE NEGLIGENCE OF AGENT OR ANY LENDER, ALL OF WHICH ARE HEREBY ASSUMED BY BORROWER AND CEC, JOINTLY AND SEVERALLY. THE OBLIGATIONS OF BORROWER AND CEC UNDER THIS SECTION 10.05 SHALL SURVIVE ANY TERMINATION OF THIS AGREEMENT AND PAYMENT OF THE NOTES;

PROVIDED, THAT NO INDEMNIFIED PARTY SHALL BE ENTITLED TO INDEMNIFICATION TO THE EXTENT ITS OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT CONTRIBUTED TO ITS LOSS.

10.06. Notices. Except for telephonic notices permitted herein, any notices or other communications required or permitted to be given by any Loan Documents and instruments referred to herein must be (i) given in writing and personally delivered or mailed by prepaid certified or registered mail, or (ii) made by telex or telecopy delivered or transmitted, to the party to whom such notice of communication is directed, to the address of such party as follows: (A) Borrower and CEC: Chesapeake Energy Corporation or Chesapeake Exploration Limited Partnership, 6104 North Western, Oklahoma City, Oklahoma 73118 (Attention: Chief Financial Officer) with a copy to Self, Giddens & Lees, Inc., 2725 Oklahoma Tower, 210 Park Avenue, Oklahoma City, Oklahoma 73102 (Attention: C. Ray Lees); (B) Agent: Union Bank of California, N.A., 500 North Akard, 4200 Lincoln Plaza, Dallas, Texas 75201 (Attention: Randall L. Osterberg), with a copy to Thompson & Knight, P.C., 3300 First City Center, 1700 Pacific Avenue, Dallas, Texas 75201 (Attention: James W. McKellar, Esquire) and (C) to each Lender at the address set forth for such Lender on Schedule 1 hereto. Any notice to be mailed or personally delivered may be mailed or delivered to the principal offices of the party to whom such notice is addressed. Any such notice or other communication shall be deemed to have been given (whether actually received or not) on the third day after it is mailed or the day it is personally delivered as aforesaid or, if transmitted by telex or telecopy, on the day that such notice is transmitted as aforesaid. Any party may change its address for purposes of this Agreement by giving notice of such change to the other parties pursuant to this Section 10.06.

10.07. GOVERNING LAW. THIS AGREEMENT HAS BEEN NEGOTIATED, AND IS BEING EXECUTED AND DELIVERED, IN THE STATE OF TEXAS, AND THE SUBSTANTIVE LAWS OF SUCH STATE AND THE APPLICABLE

FEDERAL LAWS OF THE USA SHALL GOVERN THE VALIDITY, CONSTRUCTION, ENFORCEMENT AND INTERPRETATION OF THE LOAN DOCUMENTS, EXCEPT TO THE EXTENT THE LAWS OF ANY JURISDICTION WHERE OTHER COLLATERAL IS LOCATED REQUIRE APPLICATION OF SUCH LAWS WITH RESPECT TO SUCH COLLATERAL; PROVIDED, THAT, THE LAWS OF TEXAS AND/OR THE USA SHALL NOT LIMIT THE AMOUNT OR RATE OF INTEREST WHICH THE HOLDER OF THE NOTES MAY CONTRACT FOR, CHARGE, RECEIVE, COLLECT AND/OR APPLY IF OTHER APPLICABLE LAWS PERMIT A HIGHER AMOUNT OR RATE.

10.08. CHOICE OF FORUM AND JURISDICTION. THE OBLIGATIONS OF BORROWER OR CEC FOR PAYMENT OF ALL AMOUNTS DUE UNDER THIS AGREEMENT AND THE LOAN DOCUMENTS ARE PERFORMABLE IN LOS ANGELES COUNTY, CALIFORNIA, AND ALL OTHER OBLIGATIONS OF BORROWER OR CEC UNDER THIS AGREEMENT AND THE LOAN DOCUMENTS ARE PERFORMABLE IN DALLAS COUNTY, TEXAS. ANY SUIT, ACTION OR PROCEEDING AGAINST BORROWER OR CEC WITH RESPECT TO THIS AGREEMENT, THE NOTES, THE OTHER LOAN DOCUMENTS OR ANY JUDGMENT ENTERED BY ANY COURT IN RESPECT THEREOF, MAY BE BROUGHT IN THE COURTS OF THE STATE OF TEXAS, COUNTY OF DALLAS, OR IN THE UNITED STATES COURTS LOCATED IN THE STATE OF TEXAS AS AGENT MAY ELECT, AND BORROWER AND CEC HEREBY SUBMIT TO THE NON-EXCLUSIVE JURISDICTION OF SUCH COURTS FOR THE PURPOSE OF ANY SUCH SUIT, ACTION OR PROCEEDING. BORROWER AND CEC EACH HEREBY IRREVOCABLY WAIVE ANY OBJECTIONS WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE NOTES OR ANY OTHER LOAN DOCUMENT BROUGHT IN THE COURTS LOCATED IN THE STATE OF TEXAS, COUNTY OF DALLAS, AND HEREBY FURTHER IRREVOCABLY WAIVES ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

10.09. Invalid Provisions. If any provision of any Loan Document is held to be illegal, invalid or unenforceable under present or future Laws during the term of this Agreement, such provision shall be fully severable; such Loan Document shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part of such Loan Document; and the remaining provisions of such Loan Document shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from such Loan Document.

10.10. Limitation on Interest. Agent, each Lender, the Companies 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 Companies 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. Agent and each Lender expressly disavows 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) Agent, any Lender or any other holder of any or all of the Obligations shall otherwise collect monies 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 such 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 Agent's, such Lender's or such 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, Agent, Lenders and the Companies (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 effect 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 Texas Revised Civil Statutes Annotated article 5069- 1.04, that ceiling shall be the indicated rate ceiling and shall be used when appropriate in determining the Highest Lawful Rate. 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.

10.11. Offset. Borrower hereby grants to Agent and each Lender the right of offset to secure repayment of the Obligations, upon any and all moneys, securities or other property of Borrower and the proceeds therefrom, now or hereafter held or received by or in transit to Agent or such Lender or any of its agents, from or for the account of Borrower, whether for safe keeping, custody, pledge, transmission, collection or otherwise, and also upon any and all deposits (general or special) and credits of Borrower, and any and all claims of Borrower against Agent or such Lender at any time existing. Borrower agrees that any lender purchasing a participation from

any Lender may, to the fullest extent permitted by law, exercise all of such Lender's rights of payment (including the right of set-off) with respect to such participation as fully as if such lender were the direct creditor of Borrower as appropriate in the amount of such participation. Borrower agrees that the Loans hereunder are the genesis of all future revenues of Borrower from which deposit accounts of Borrower with Agent will have arisen, and are a result of the Agreement and the transactions contemplated hereby; and Agent and each Lender shall be entitled to exercise the right of recoupment with respect to all such deposit accounts.

10.12. Binding Effect. The Loan Documents shall be binding upon and inure to the benefit of Borrower, CEC and Lenders and their respective successors and assigns; provided, however, Borrower may not, without the prior written consent of Majority Lenders, assign any rights, powers, duties or obligations thereunder. Neither any Company nor any Affiliates of any Company 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 any Company or any Affiliate of any Company at any time purchases some but less than all of the Obligations owed to Agent and all Lenders, such purchaser shall not be entitled to any rights of Agent or any Lender under the Loan Documents unless and until any Company or its Affiliates have purchased all of the Obligations.

10.13. Table of Contents and Headings. The table of contents and section headings are for convenience of reference only and shall in no way affect the interpretation of this Agreement.

10.14. Survival. All representations, warranties, conditions and covenants made herein shall survive the execution and delivery of the Loan Documents and the making of the Loans, and no investigation by Agent or any Lender nor any closing shall affect the representations, warranties, conditions and covenants of Borrower or CEC or the right of Agent or any Lender to rely on and enforce them. Any Obligations under Sections 3.14 through 3.17 shall survive any termination of this Agreement or any other Loan Document.

10.15. Assignments and Participations.

(a) Any Lender may from time to time grant participations in all or any part of the Obligations owed to such Lender to any Person (a "Participant") on such terms and conditions as may be determined by such Lender in its sole and absolute discretion, provided that the grant of such participation shall not relieve any Lender of its obligations hereunder nor create any additional obligations of any Company, provided further, that the Companies agree that if any Obligations are due and unpaid, or shall have

been declared or shall have become due and payable upon the occurrence and during the continuance of an Event of Default, each Participant shall be deemed to have the right of setoff in respect of its participation interest in amounts owing under the Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Lender under the Loan Documents, provided further, that such right of setoff shall be subject to the obligations of such Participant to share with Lenders and Lenders agree to share with such Participant. Borrower also agrees that each participant shall be entitled to the benefits of Section 2.03 provided that no Participant shall be entitled to receive any greater amount pursuant to such section than the transferor Lender would have been entitled to receive in respect of the amount of the participating interest transferred by such transferor Lender to such Participant had no such transfer occurred. Each Lender agrees that any agreement between such Lender and any such Participant in respect of such participating interest shall not restrict such Lender's right to agree to any amendment, supplement, waiver or modification to this Agreement or any other Loan Document, except for actions which would require the consent of all Lenders under Section 10.02.

(b) Each Lender may at any time sell to one or more financial institutions (a "Purchasing Lender") any part of its rights and obligations under the Loan Documents pursuant to an Assignment and Acceptance, substantially in the form of Exhibit "N", appropriately completed, executed by such Purchasing Lender, such transferor Lender and Agent; provided that such transferor Lender shall have received the prior written consent thereto of Agent and Borrower (which consent shall not be unreasonably withheld), and provided further that no Lender shall hold an interest in Loans under this Agreement which in the aggregate is less than \$10,000,000. Upon (x) delivery to Agent of both an appropriately completed Assignment and Acceptance and an appropriately completed Agreement to Be Bound in the form of Exhibit "O", (y) payment of a processing fee payable to the Agent in the amount of \$5,000, and (z) payment of the amount of its participation, the Purchasing Lender shall for all purposes be a Lender party to this Agreement and shall have all the rights and obligations of a Lender under this Agreement, to the same extent as if it were an original party hereto with the Percentage Share of the Loans set forth in the Assignment and Acceptance. Upon the consummation of any transfer pursuant to this Section 10.15(b), the transferor Lender, Agent and Borrower shall make appropriate arrangements so that, if required, replacement Notes are issued to such transferor Lender and new Notes or, as appropriate, replacement Notes, are issued to such Purchasing Lender, in each case in principal amounts reflecting their respective Percentage Shares of the Loans. Prior to selling or otherwise transferring any Note, transferor Lender shall endorse on such Note all Loans and

all payments of principal and interest that have been made in respect of such Note.

(c) Nothing contained in this Section 10.15 shall prevent or prohibit any Lender from assigning or pledging all or any portion of its Loan and its 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.

10.16. Benefit. Without prior written consent of Majority Lenders, neither Borrower nor CEC may transfer or assign its Rights and obligations under any Loan Documents and, subject to such restriction, the provisions hereof and of the other Loan Documents shall extend to and be binding upon the successors and assigns of Borrower and CEC; all covenants and agreements contained herein by or on behalf of any of the parties hereto shall bind and inure to the benefit of, and be enforceable by, the respective successors and assigns of the parties hereto, whether so expressed or not, and, in particular, shall inure to the benefit of, and be enforceable by, the holder or holders of the Notes. The parties do not intend the benefits of the Loan Documents to inure to the benefit of any third party, nor shall the Loan Documents be construed to make or render Agent or any Lender liable to any materialmen, supplier, contractor, subcontractor, purchaser or lessee of any property owned by Borrower, or for debts or claims accruing to any such Person against Borrower. Notwithstanding anything contained in the Loan Documents or any conduct or course of conduct by any or all of the parties hereto, before or after signing this Agreement, nothing in any Loan Document shall be construed as creating any right, claim or cause of action against Agent or any Lender or any of its officers, directors, or employees, in favor of any materialmen, supplier, contractor, subcontractor, purchaser or lessee of any property owned by Borrower, nor in favor of any other Person other than Borrower.

10.17. Multiple Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart.

10.18. Article 15.10(b). Borrower, Agent and Lenders hereby agree that, except for Section 15.10(b) thereof, the provisions of Art. 5069-15.01 et seq. of the Revised Civil Statutes of Texas, 1925, as amended (regulating certain revolving credit loans and revolving tri-party accounts), shall not apply to the Loan Documents.

10.19. WRITTEN LOAN AGREEMENT. THIS WRITTEN LOAN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AS OF THE DATE HEREOF AND MAY NOT

BE CONTRADICTED BY EVIDENCE OF ANY ACTUAL, ALLEGED OR OTHER PRIOR, CONTEMPORANEOUS OR SUBSEQUENT UNDERSTANDINGS OR AGREEMENTS OF THE PARTIES, WRITTEN OR ORAL, EXPRESSED OR IMPLIED, OTHER THAN A WRITING WHICH EXPRESSLY AMENDS OR SUPERSEDES THIS AGREEMENT. THERE ARE NO UNWRITTEN, ORAL AGREEMENTS BETWEEN THE PARTIES.

10.20. Restatement. This Agreement restates and amends the Original Agreement, in its entirety effective as of the Closing Date, and all of the terms and provisions hereof shall supersede the terms and provisions thereof.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the day and year first above written.

BORROWER:

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP

By: CHESAPEAKE OPERATING, INC.,
its general partner

By: /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon
President

CEC:

CHESAPEAKE ENERGY CORPORATION

By: /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon
Chief Executive Officer

AGENT:

UNION BANK OF CALIFORNIA, N.A.

By: /s/ RANDALL L. OSTERBERG

Randall L. Osterberg
Vice President

By: /s/ MICHAEL TREGONING

Name: Michael Tregoning
Title: Senior Vice President

LENDERS:

UNION BANK OF CALIFORNIA, N.A.

By: /s/ RANDALL L. OSTERBERG

Randall L. Osterberg
Vice President

By: /s/ MICHAEL TREGONING

Name: Michael Tregoning
Title: Senior Vice President

THE FIRST NATIONAL BANK OF CHICAGO

By: /s/ DIXON P. SCHULTZ

Name: Dixon P. Schultz
Title: Vice President

BANKERS TRUST COMPANY

By: /s/ MARY JO JOLLY

Name: Mary Jo Jolly
Title: Assistant Vice President

SCHEDULE OF LENDERS

Lender -----	Percentage Share -----
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1. Name:
Union Bank of California, N.A. 40%

Domestic Lending Office:
445 South Figueroa Street
Los Angeles, California 90071

Eurodollar Lending Office:
Same

Address for Notices:
500 North Akard
4200 Lincoln Plaza
Dallas, Texas 75201
Attn: Randall Osterberg
Phone: (214) 922-4200
Fax: (214) 922-4209

w/copy to:

Thompson & Knight, P.C.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Attn: James McKellar
Phone: (214) 969-1605
Fax: (214) 969-1751

2. Name:
The First National Bank of Chicago 30%

Domestic Lending Office:
The First National Bank of Chicago
One First National Plaza
0634, IFNP, 10
Chicago, Illinois 60670

Eurodollar Lending Office:
Same

Address for Notices:
Credit Contacts: Dixon Schultz
1100 Louisiana, Suite 3200
Houston, Texas 77002
Phone: (713) 654-7329
Fax: (713) 654-7370

CHESAPEAKE ENERGY CORPORATION
THIRD AMENDED AND RESTATED
1992 NONSTATUTORY STOCK OPTION PLAN
[As amended and restated through
December 16, 1994]

[Gives effect to 2 for 1 stock split]

CHESAPEAKE ENERGY CORPORATION
THIRD AMENDED AND RESTATED
1992 NONSTATUTORY STOCK OPTION PLAN
[As amended and restated through
December 16, 1994]

1. Purpose. The purpose of the Chesapeake Energy Corporation Third Amended and Restated 1992 Nonstatutory Stock Option Plan (the "Plan") is to aid Chesapeake Energy Corporation (the "Company") and its Subsidiaries, in attracting and retaining (a) members on their Board of Directors ("Directors") and (b) professionals and independent consultants (collectively, "Consultants") of outstanding competence and to enable Directors and Consultants of the Company and any Subsidiary to acquire or increase ownership interests in the Company on a basis that will encourage them to use their best efforts to promote the growth and profitability of the Company or any Subsidiary. Consistent with these objectives, the Plan authorizes the granting to Directors and Consultants of options to acquire shares of Company stock pursuant to the terms and conditions hereinafter set forth.

2. Definitions. The following terms have the meanings set forth unless the context clearly indicates to the contrary:

2.1 Board shall mean the Board of Directors of the Company.

2.2 Code shall mean the Internal Revenue Code of 1986, as amended, and any successor statute of similar import, together with the regulations thereunder, in each case as in effect from time to time.

2.3 Committee shall mean the Stock Option Committee of the Board.

2.4 Company shall mean Chesapeake Energy Corporation.

2.5 Consultant shall mean a person who is engaged by the Company or a Subsidiary to provide services to the Company or a Subsidiary on a regular basis but who is not an employee. The term includes, but is not limited to, attorneys and accountants.

2.6 Date of Grant shall mean the date on which an Option is granted under the Plan to an Optionee.

2.7 Director shall mean a member of the Board.

2.8 ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended, and any successor statute of similar import, together with the regulations thereunder, in each case as in effect from time to time.

2.9 Exchange shall mean the Securities Exchange Act of 1934, as amended, and any successor statute of similar import, together with the regulations thereunder, in each case as in effect from time to time.

2.10 Option shall mean a "stock option" to purchase Shares of the Company granted pursuant to the provisions of Paragraph 6 hereof.

2.11 Option Period shall mean the period during which an Option may be exercised by the Optionee or Successor Optionee.

2.12 Option Price shall mean the price to be paid by the Optionee to the Company upon the exercise of an Option.

2.13 Optionee shall mean a Director or Consultant to whom an Option has been granted under the Plan.

2.14 Parent shall mean any future corporation which is a "parent" of the Company as defined in Sections 424(e) and (g) of the Code.

2.15 Plan shall mean the Chesapeake Energy Corporation Amended and Restated 1992 Nonstatutory Stock Option Plan.

2.16 Shares shall mean the \$0.005 par value common stock of the Company.

2.17 Stock Option Agreement shall mean the agreement entered into between the Company and the Optionee under which the Optionee may purchase Shares pursuant to the Plan.

2.18 Subsidiary shall mean any present or future corporation which is a "subsidiary" of the Company as defined in Sections 424(f) and (g) of the Code.

2.19 Successor Company shall mean any future corporation which succeeds to or is assigned or has transferred to it the business of the Company as a result of or in connection with a corporate merger, consolidation, combination, reorganization or liquidation.

2.20 Successor Optionee shall mean the personal representative of the estate of a deceased Optionee.

3. Administration. The Plan shall be administered by the Committee appointed by the Board.

3.1 Composition of Committee. The Committee shall consist of two (2) or more members of the Board appointed by the Board. The members of the Committee shall serve, and may be removed, at the pleasure of the Board. The grant of an Option under the Plan and any participation in the Plan by an Optionee who is a member of the Committee must be ratified and approved by a majority of the Directors who are not employees of the Company or a Subsidiary. Any member may serve concurrently as a member of any other administrative committee of any other plan of the Company or any of its affiliates entitling participants therein to acquire stock, stock options or deferred compensation rights (including stock appreciation rights).

3.2 Duties and Powers of Committee. Except with respect to Options granted or to be granted pursuant to Paragraph 6.11 of this Plan, the Committee shall have the power where consistent with the general purpose and intent of the Plan (a) to establish policies and to adopt rules and regulations for carrying out the purposes and provisions of the Plan; (b) to interpret and construe the Plan and determine all questions arising under the Plan and any agreement made pursuant to the Plan, and any such interpretation, construction or determination made by the Committee shall be final, binding and conclusive; (c) to determine the number of Shares covered by each Option; (d) to determine the time or times when Options will be granted and exercised; (e) to determine the conditions and restrictions under which Options may be granted and exercised; (f) to determine if the Shares will be subject to any restrictions upon the exercise of such Option; and (g) to prescribe the form of the instruments relating to the grant, exercise and other terms of Options. With respect to participation in the Plan by an Optionee who is a member of the Committee, the exercise of the foregoing powers must be ratified and approved by a majority of the Directors who are not employees of the Company or any Subsidiary.

3.3 Majority Rule. A majority of the members of the Committee (but not less than two (2)) shall constitute a quorum for the transaction of any business under the Plan and any action taken by a majority present at a meeting at which a quorum is present shall constitute the action of the Committee. Notwithstanding anything herein to the contrary, any action with respect to participation in the Plan by any Optionee who is a member of the Committee must be ratified and approved by not less than a majority of the Directors who are not employees of the Company or any Subsidiary.

3.4 Company Assistance. The Company shall supply full and timely information to the Committee on all matters relating to (a) eligible Directors, their membership on the Board, death, retirement, disability or other termination of membership on the Board, (b) eligible Consultants, the term of their engagement with the Company or with a Subsidiary, death, retirement, disability or other termination as a Consultant for the Company or for a Subsidiary and (c) such other pertinent facts as the Committee may require. The Company shall furnish the Committee with such clerical and other assistance as is necessary in the performance of its duties.

3.5 Reliance on Reports. Each member of the Committee and each member of the Board shall be fully justified in relying or acting in good faith upon any report made by the independent public accountants of the Company, its Subsidiaries and Successor Companies and upon any other information furnished in connection with the Plan by any person or persons. In no event shall any person who is or shall have been a member of the Committee or the Board be liable for any determination made or other action taken or any omission to act in reliance upon any such report or information or for any action or failure to act if made or done in good faith.

4. Eligibility; Participation in the Plan. Options may be granted only to Directors and Consultants. Subject to the terms and conditions of the Plan, the Committee shall determine from time to time those Directors and Consultants who are to be granted Options. Except as provided in paragraph 6.11 of this Plan, in making any determination as to Optionees to whom Options shall be granted and as to the number of Shares to be covered by such Options, the Committee shall take into account the duties of the respective Optionees, their present and potential contributions to the success of the Company, and such other factors as the Committee shall deem relevant in connection with accomplishing the purposes of the Plan.

5. Shares Subject to Plan. Subject to any adjustment required by Paragraph 5.1, the aggregate number of Shares which may be issued and sold hereunder shall not exceed 290,000 Shares. Such Shares may be either authorized and unissued Shares or Shares issued and thereafter acquired by the Company. If any Option for Shares granted under the Plan lapses, or is otherwise terminated, the Committee may grant Options for such Shares to other Optionees.

5.1 Adjustments. If the outstanding Shares are hereafter increased, decreased, changed into or exchanged for a different number or kind of shares or other securities of the Company or of another corporation by reason of merger, consolidation, reorganization, recapitalization, reclassification, combination of shares, stock split-up, spin-off, or stock dividend, then the following shall apply:

(a) Subject to the provisions of Paragraph 5.1(b), the aggregate number and kind of Shares subject to Options which may be granted hereunder shall be adjusted accordingly. For example, if there were a two-for-one stock split, or if there were declared a stock dividend of one share per Share, the aggregate number of Shares which may be issued and sold hereunder would increase from 290,000 Shares to 580,000 Shares.

(b) Where dissolution or liquidation of the Company or any merger or combination in which the Company is not a surviving corporation is involved and no provision is made for the assumption of outstanding Options or the substitution therefor, consistent with Paragraph 6.4 hereof, each outstanding Option granted hereunder shall terminate, but the Optionee shall have the right, immediately prior to such dissolution, liquidation, merger, or combination, to exercise his or her Option, in whole or in part, to the extent that it shall not have been previously exercised, without regard to any vesting provisions.

(c) Subject to the provisions of Paragraph 5.1(b), rights under outstanding Options granted hereunder, both as to the number of Shares and the Option Price, shall be adjusted accordingly. For example, if an Option were granted under this Plan to purchase 1,000 Shares at \$13.00 per Share and there were a two-for-one stock split or if there were declared a stock dividend of one share per Share, the aggregate number of Shares which could be purchased and sold under the Option would increase from 1,000

Shares to 2,000 Shares and the Option Price for the Shares would decrease from \$13.00 per Share to \$6.50 per Share.

5.2 Determination by Committee. The adjustments required by Paragraph 5.1 and the manner of application of Paragraph 5.1 shall be determined solely by the Committee, and any such adjustments may provide for the elimination of fractional Share interests.

6. Option Grant and Stock Option Agreement. Each Option granted under this Plan shall be evidenced by the minutes of a meeting of the Committee or by the written consent of the Committee and by a written Stock Option Agreement effective on the Date of Grant and executed by the Company and the Optionee. Each Option granted hereunder shall contain such terms, restrictions and conditions as the Committee may determine, which terms, restrictions and conditions may or may not be the same in each case, subject to the following provisions of this Paragraph 6. Optionees may be granted more than one Option. The granting of an Option shall not affect any outstanding Option previously granted to an Optionee under the Plan.

6.1 Option Price. The Option Price for Shares shall be determined by the Committee but in no event shall such Option Price for Options granted after the initial public offering of the Shares be less than the greater of (a) the fair market value of the common stock of the Company on the date of grant or (b) the par value of the Shares. "Fair market value" shall be determined by the Committee as follows: (i) if the common stock of the Company is listed for trading on one or more national securities exchanges (including the NASDAQ National Market System), the reported last sales price on such principal exchange as of the granting date, or other relevant date, or if such common stock shall not have been traded on such principal exchange on such date, the reported last sales price on such principal exchange on the first day prior thereto on which such common stock was so traded; or (ii) if the common stock of the Company is not listed for trading on a national securities exchange (including the NASDAQ National Market System) but is traded in the over-the-counter market, the mean of the highest and lowest bid prices for such common stock as of the granting date, or other relevant date, or if there are no such bid prices for such common stock on such date, the mean of the highest and lowest bid prices on the first day prior thereto on which such prices existed. Provided, if the price of such common stock is not reported or listed as aforesaid, then the "fair market value" of such common stock shall be determined by the Committee as of the relevant date, and the Committee shall utilize any reasonable and prudent method in determining such fair market value, including without limitation, the obtaining of opinions of independent and well-qualified experts.

6.2 Option Period. No Options may be granted under the Plan after December 10, 2002. The maximum Option Period for exercise of an Option shall be established by the Committee at the Date of Grant, but the Option Period shall not be more than ten (10) years from the Date of Grant or such shorter period as provided in Paragraph 6.3 with respect to early termination.

6.3 Vesting of Options. Each Option granted hereunder may only be exercised to the extent that the Optionee is vested in such Option. An Optionee shall vest separately in each Option granted hereunder in accordance with a schedule determined by the Committee in its sole discretion, which will be included in the Stock Option Agreement.

6.4 Merger, Consolidation, Etc. In the event that the Company shall, pursuant to action by its Board, at any time propose to merge into, consolidate with, or sell or otherwise transfer all or substantially all of its assets to another corporation and provision is not made pursuant to the terms of such transaction for the assumption by the surviving, resulting or acquiring corporation of outstanding Options under the Plan, or for the substitution of new options therefor, the Committee shall cause written notice of the proposed transaction to be given to each Optionee not less than forty (40) days prior to the anticipated effective date of the proposed transaction, and his or her Option shall become one hundred percent (100%) vested and, prior to a date specified in such notice, which shall be not more than ten (10) days prior to the anticipated effective date of the proposed transaction, each Optionee shall have the right to exercise his or her Option to purchase any or all of the Shares then subject to such Option, including those, if any, which by reason of other provisions of the Plan have not then become available for purchase. Each Optionee, by so notifying the Company in writing, may, in exercising his or her Option, condition such exercise upon, and provide that such exercise shall become effective at the time of, but immediately prior to, the consummation of the transaction, in which event such Optionee need not make payment for the Shares to be purchased upon exercise of such Option until five (5) days after written notice by the Company to such Optionee that the transaction has been consummated. If the transaction is consummated, each Option, to the extent not previously exercised prior to the date specified in the foregoing notice, shall terminate on the effective date of such consummation. If the transaction is abandoned, (i) any Shares not purchased upon exercise of such Option shall continue to be available for purchase in accordance with the other provisions of the Plan and (ii) to the extent that any Option not exercised prior to such abandonment shall have vested solely by operation of this Paragraph 6.4, such vesting shall be deemed annulled, and the vesting schedule set forth in Paragraph 6.3 shall be reinstated, as of the date of such abandonment.

6.5 Option Exercise. At all times during the period commencing with the date an Option is granted to an Optionee and ending on the earlier of the expiration of the Option Period applicable to such Option or the date which is one (1) year prior to the date the Option is exercised by such Optionee, such Optionee must be a Director, a Consultant or an employee of the Company or a Subsidiary (in the event that after the date an Option is granted a Director is or becomes a Consultant or an employee of the Company or a Subsidiary or a Consultant is or becomes a Director or an employee of the Company or a Subsidiary). In the event an Optionee's membership on the Board, his engagement as a Consultant for the Company or a Subsidiary or his employment by the Company or a Subsidiary is terminated by reason of his death, the

Successor Optionee may exercise any unexercised Option granted to the Optionee under the Plan at any time within three (3) years after the Optionee's death but in any event not after the expiration of the Option Period applicable to such Option. If an Optionee's membership on the Board, his engagement as a Consultant for the Company or a Subsidiary or his employment by the Company or a Subsidiary is terminated for cause, the Optionee's Option shall expire thirty (30) days after such termination. Discharge for cause shall include termination for malfeasance or gross misfeasance in the performance of duties, conviction of illegal activity in connection therewith, or any conduct detrimental to the interests of the Company, and in any event the determination of the Committee with respect thereto shall be final and conclusive. Notwithstanding the foregoing, the Committee, in its sole discretion at the time an Option is granted, may establish an earlier date (or dates) on which an Option must be exercised.

6.6 Notice of Option Exercise and Payment.

Options may be exercised in whole at any time, or in part from time to time, with respect to whole shares only, within the period provided for the exercise thereof in the Stock Option Agreement, and such Option shall be exercised by a written notice of intent to exercise the Option with respect to a specified number of Shares delivered to the Company at its principal office in Oklahoma City, Oklahoma. Payment for Shares purchased under this Plan shall be made in full, either in cash, or in common stock of the Company or in a combination of cash and common stock of the Company, at the time of the exercise of the Option as a condition thereof. If common stock of the Company is utilized as consideration for the purchase of Shares upon exercise of an Option, such common stock shall be valued at the "fair market value" as determined in Paragraph 6.1 hereof as of the exercise date or other relevant date. In addition to the foregoing procedure which may be available for the exercise of any Option, the Optionee may deliver to the Company a notice of exercise including an irrevocable instruction to the Company to deliver the stock certificate representing the Shares subject to an Option to a broker authorized to trade in the common stock of the Company. Upon receipt of such notice, the Company will acknowledge receipt of the executed notice of exercise and forward the notice to the broker. Upon receipt of the copy of the notice which has been acknowledged by the Company, and without waiting for issuance of the actual stock certificate with respect to the exercise of the Option, the broker may sell the Shares (or that portion of the Shares necessary to cover the Option Price and any withholding taxes due). Upon receipt of the stock certificate from the Company, the broker will deliver directly to the Company that portion of the sales proceeds to cover the Option Price and any withholding taxes. Further, the broker may also facilitate a loan to the Optionee upon receipt of the notice of exercise in advance of the issuance of the actual stock certificate as an alternative means of financing and facilitating the exercise of any Option. For all purposes of effecting the exercise of an Option, the date on which the Optionee gives the notice of exercise to the Company will be the date he becomes bound contractually to take and pay for the Shares underlying the Option.

6.7 Non-Transferability of Option. An Option shall not be transferable otherwise than by will or the laws of descent and distribution, and the Option may be exercised, during the lifetime of the Optionee, only by him. More particularly (but without limiting the generality of the foregoing), the Option may not be assigned, transferred (except as provided above), pledged or hypothecated in any way, shall not be assignable by operation of law and shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation, or other disposition of the Option contrary to the provisions hereof shall be null and void and without effect.

6.8 Additional Documents on Death of Optionee. No transfer of an Option by the Optionee by will or the laws of descent and distribution shall be effective to bind the Company unless the Company shall have been furnished with written notice of such transfer and an authenticated copy of the will and/or such other evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the Successor Optionee of the terms and conditions of such Option.

6.9 No Rights as Stockholder or to Continued Membership on the Board or to Continued Engagement as a Consultant. No Optionee shall have any rights as a stockholder of the Company with respect to any Shares prior to the date of issuance to him or her of the certificate or certificates for such Shares and neither the Plan nor any Option granted under the Plan shall confer upon an Optionee any right to continuance of membership on the Board or Board of Directors of a Subsidiary, to continuance of engagement as a Consultant for the Company or for a Subsidiary or to continuance of employment by the Company or a Subsidiary (in the event a Director or Consultant is or becomes an employee of the Company after the date an Option is granted to any such Optionee) or interfere in any way with the right of the shareholders of the Company to terminate the Optionee's membership on the Board or Board of Directors of a Subsidiary or interfere in any way with the right of any officer of the Company or a Subsidiary to terminate the engagement of any Consultant or the employment of any employee.

6.10 Surrender of Options. The Committee may permit the voluntary surrender of all or a portion of any Option to be conditioned upon the granting to the Optionee under this Plan of a new Option for the same or a different number of Shares as the Option surrendered, or may require such voluntary surrender as a condition precedent to a grant of a new Option to such Optionee. Such new Option shall be exercisable at the price, during the period, and in accordance with any other terms or conditions specified by the Committee at the time the new Option is granted, all determined in accordance with the provisions of this Plan without regard to the price, period of exercise, or any other terms or conditions of the Option surrendered.

6.11 Director Formula Awards. Notwithstanding anything to the contrary in this Plan, each Director, who is not an executive officer of the Company on the date this Paragraph 6.11 is approved by the shareholders of the Company, shall be granted on such date an Option for

the purchase of 5,000 Shares, and thereafter each person serving as a Director on the second Tuesday of each succeeding October, other than any Director who is an executive officer of the Company, shall be granted on such date an option to purchase 5,000 Shares. A Director shall be eligible to exercise any Option granted under this Paragraph 6.11 immediately. The Option Price for Options granted under this Paragraph 6.11 shall be equal to the fair market value (as defined in Paragraph 6.1 of this Plan) on the date of grant. The number of shares and the option price shall be subject to adjustment as provided in Paragraph 5.1 and the option price shall be payable as provided in Paragraph 6.6. The terms of each option granted under this Paragraph 6.11 shall be for a period which shall expire upon the first to occur of (x) ten (10) years from the date of grant or (y) one (1) year after the date that the Optionee ceases to be a Director of the Company; provided, however, if an Optionee ceases to be a Director by reason of his death or is terminated for cause, the exercise period shall be as provided in Paragraph 6.5 hereof. Notwithstanding anything herein to the contrary, pursuant to Rule 16(b)-3(c)(2)(ii)(B) promulgated under the Exchange Act (or any successor rule) the provisions of this Paragraph 6.11 cannot be amended more than once every six (6) months, other than to comport with changes to the Code or rules and regulations thereunder.

7. Issuance of Shares; Restrictions. Subject to the conditions and restrictions provided in this Paragraph 7, the Company shall, within twenty (20) business days after an Option has been duly exercised in whole or in part, deliver to the person who exercised the Option a certificate, registered in the name of such person, for the number of Shares with respect to which the Option has been exercised. The Company may legend any stock certificate issued hereunder to reflect any restrictions provided for in this Paragraph 7.

7.1 Registration. Unless the Shares subject to Options granted under the Plan have been registered under the Securities Act of 1933, as amended, and any applicable state securities laws (collectively, the "Act") (and, in the case of any Optionee who may be deemed an "affiliate" of the Company as defined in Rule 405 under the Act (or any successor rule), such Shares have been registered under the Act for resale by such Optionee), or the Company has determined that an exemption from registration is available, the Company may require prior to and as a condition of the issuance of any Shares that the person exercising an Option hereunder furnish the Company with a written representation in a form prescribed by the Committee to the effect that such person is acquiring such Shares solely with a view to investment for his or her own account and not with a view to the resale or distribution of all or any part thereof, and that such person will not dispose of any of such Shares otherwise than in accordance with the provisions of Rule 144 under the Act (or any successor rule) unless and until either the Shares are registered under the Act or the Company is satisfied that an exemption for such registration is available.

7.2 No Obligation to Issue. Anything contained herein to the contrary notwithstanding, the Company shall not be obligated to sell or issue any Shares under the Plan unless and until the Company is satisfied that such sale or issuance complies with (i) all applicable

requirements of any stock exchange on which the Shares are listed for trading or all requirements of the National Association of Securities Dealers, Inc. if the Shares are included in the NASDAQ National Market System (or the governing body of the principal market in which such Shares are traded), (ii) all applicable provisions of the Act, and (iii) all other laws or regulations by which the Company is bound or to which the Company is subject.

7.3 Disposition. Each Stock Option Agreement shall authorize the Company (or a Subsidiary) to make such provision as it may deem appropriate for the withholding of any applicable federal, state or local taxes that it determines it may be obligated to withhold or pay in connection with the grant or exercise of such Option or the disposition of Shares acquired upon exercise of such Option.

8. Amendment and Termination of the Plan. The Plan shall terminate after December 10, 2002, provided that the Plan shall continue with respect to Options which are in effect as of such date. Prior to any such termination, the Plan may be terminated, altered, changed, modified or amended by the Board for any reason including, but not limited to, the necessity of modifying requirements of the Plan to conform with the law or to meet special circumstances not anticipated or covered by the Plan; provided that except as required by Paragraph 5.1 hereof, no action of the Board may, without the approval of the shareholders of the Company, (a) increase the aggregate number of Shares which may be purchased under Options granted under the Plan; (b) materially change the persons or class of persons eligible to participate in the Plan; (c) withdraw the administration of the Plan from the Committee; (d) amend or alter the Option Price; (e) extend the maximum Option Period or extend the term of the Plan; (f) materially increase the benefit accruing to participants under the Plan; or (g) amend the Plan in any manner which would impair the applicability of Rule 16b-3 as promulgated under the Exchange Act (or any successor rule) to the Plan. No amendment, modification or termination of the Plan shall in any manner adversely affect any Option theretofore granted under the Plan without the consent of the affected Optionee.

9. Indemnification. Each person who is or shall have been a member of the Committee or of the Board shall be indemnified and held harmless by the Company against and from any loss, cost, liability or expense that may be imposed upon or be reasonably incurred by him in connection with or resulting from any claim, action, suit, or proceeding to which he may be a party or in which he may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him in settlement thereof with the Company's approval or paid by him in satisfaction of a judgment in any such action, suit, or proceeding against him; provided, he shall give the Company an opportunity, at its own expense, to defend the same before he undertakes to handle and defend it on his own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such person may be entitled by the Company's Certificate of Incorporation, Bylaws, as a matter of law, or otherwise. This indemnification shall not apply or be available if it is determined by the Company that such acts or omissions to act were willfully committed by the person involved.

10. General.

10.1 Other Compensation Plans. The adoption of this Plan shall not affect any other stock option or incentive or other compensation plans in effect for the Company, any Subsidiary or Successor Company, nor shall the Plan preclude the Company from establishing any other forms of incentive or other compensation for employees, directors or consultants of the Company, its Subsidiaries or Successor Company.

10.2 Plan Binding on Successors. This Plan shall be binding on the successors of the Company (including any Successor Company) and any Optionee hereunder.

10.3 Singular, Plural; Gender. Whenever used herein, nouns in the singular shall include the plural and the masculine pronoun shall include the feminine gender.

10.4 Headings No Part of Plan. Headings of paragraphs are inserted for convenience and reference only and they constitute no part of the Plan.

10.5 Requirements of Law. If required, the granting of Options and the issuance of Shares upon the exercise of an Option shall not be issued except upon the approval of proper governmental agencies or securities exchanges, if required, and only in compliance with the Act, and any other applicable securities law or pursuant to an exemption therefrom.

10.6 Unsecured Obligation. Optionees under this Plan shall not have any interest in any fund or specific asset of the Company by reason of this Plan.

10.7 Expenses of the Plan. The expenses of administering the Plan shall be borne by the Company, its Subsidiaries and its Successor Companies.

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EMPLOYMENT AGREEMENT

between

MARTHA A. BURGER

and

CHESAPEAKE OPERATING, INC.

Effective July 1, 1995

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EMPLOYMENT AGREEMENT

THIS AGREEMENT is made effective July 1, 1995, between CHESAPEAKE OPERATING, INC., an Oklahoma corporation (the "Company"), and MARTHA A. BURGER, an individual (the "Employee").

W I T N E S S E T H:

WHEREAS, the Company desires to retain the services of the Employee and the Employee desires to make the Employee's services available to the Company.

NOW, THEREFORE, in consideration of the mutual promises herein contained, the Company and the Employee agree as follows:

1. Employment. The Company hereby employs the Employee and the Employee hereby accepts such employment subject to the terms and conditions contained in this Agreement. The Employee is engaged as an employee of the Company, and the Employee and the Company do not intend to create a joint venture, partnership or other relationship which might impose a fiduciary obligation on the Employee or the Company in the performance of this Agreement.

2. Employee's Duties. The Employee's employment will be on a full-time basis. Throughout the term of this Agreement, the Employee will use the Employee's best efforts and due diligence to assist the Company in achieving the most profitable operation of the Company and the Company's subsidiary corporations, partnerships and entities consistent with developing and maintaining a quality business operation.

2.1 Specific Duties. The Employee will serve as Assistant Controller-Operations for the Company. The Employee will perform all of the services required to fully and faithfully execute the office and position to which the Employee is appointed under this paragraph and such other services as may be reasonably requested by the Employee's supervisor.

2.2 Supervision. The services of the Employee will be requested and directed by the Vice President- Finance, Mr. Marcus C. Rowland.

3. Other Activities. Unless the Employee has obtained the prior written approval of the President of the Company, the Employee will not: (a) engage in business independent of the Employee's employment by the Company; (b) serve as an officer, general partner or member in any corporation, partnership or firm; (c) directly or indirectly invest in, participate in, acquire an interest in any oil and gas business including, without limitation, oil and gas production, drilling, owning or operating oil and gas wells, providing services or materials to the oil and gas industry, marketing or refining oil and gas, drilling, owning or drilling oil and gas leases or mineral interests and any interest in any corporation, partnership, company or entity which conducts any of the foregoing activities. The limitation in this paragraph 3 will not prohibit: (i) an investment by the Employee in publicly traded securities; or (ii) the continued direct ownership and operation of oil and gas interests and leases to the extent owned by the Employee on July 1, 1995. The Employee agrees not

to acquire, directly or indirectly, any additional oil and gas interests or increase, directly or indirectly, ownership of any oil and gas interests owned by the Employee on July 1, 1995.

4. Employee's Compensation. The Company agrees to compensate the Employee as follows:

- 4.1 Base Salary. A base salary (the "Base Salary") will be paid to the Employee at the annual rate of not less than Seventy-Five Thousand (\$75,000.00) for the two (2) year period commencing July 1, 1995 and ending June 30, 1997. The Base Salary will be payable in equal semi-monthly installments on the fifteenth (15th) and last day of each month during the term of this Agreement commencing July 15, 1995.
- 4.2 Bonus. In addition to the Base Salary described at paragraph 4.1 of this Agreement, it is anticipated that the Company may pay bonus compensation to the Employee. Any bonus compensation will be at the absolute discretion of the Company in such amounts and at such times as the board of directors of the Company may determine.
- 4.3 Stock Options. In addition to the compensation set forth in paragraphs 4.1 and 4.2 of this Agreement, the Employee will be eligible to participate in grants of stock options from the Chesapeake Energy Corporation 1994 Incentive Stock Option Plan subject to the terms and conditions thereof.
- 4.4 Benefits. The Company will provide the Employee such paid vacations, retirement benefits, reimbursement of reasonable expenditures for dues, travel and entertainment and such other benefits as are customarily provided by the Company, as set forth in more detail in the Company's Employee Manual. The Company will also provide the Employee the opportunity to apply for coverage under the Company's medical, life and disability plans, if any. If the Employee is accepted for coverage under such plans, the Company will provide such coverage on the same terms as is customarily provided by the Company to the plan participants as modified from time to time.

5. Term. In the absence of prior termination pursuant to the provisions of this Agreement, this Agreement will extend for a term of two (2) years commencing on July 1, 1995, and ending on June 30, 1997 (the "Expiration Date").

6. Termination. This Agreement will continue in effect until the expiration of the term stated at paragraph 5 of this Agreement unless earlier terminated pursuant to this paragraph 6.

6.1 Termination by Company. The Company will have the following rights to terminate this Agreement:

- 6.1.1 Termination without Cause. The Company may terminate this Agreement without cause at any time by the service of written notice of termination to the Employee specifying an effective date of such termination not sooner than thirty (30) days after

the date of such notice (the "Termination Date"). In the event the Employee is terminated without cause, or the Company elects not to renew the contract, the Employee will receive as termination compensation: (a) sixty (60) days compensation; (b) any benefits payable by operation of paragraph 4.4 of this Agreement; and (c) any vacation pay accrued through the date of termination.

- 6.1.2 Termination for Cause. The Company may terminate this Agreement for cause if the Employee: (a) misappropriates the property of the Company or commits any other act of dishonesty; (b) engages in personal misconduct which materially injures the Company; (c) willfully violates any law or regulation relating to the business of the Company which results in material injury to the Company; or (d) willfully and repeatedly fails to perform the Employee's duties hereunder. In the event this Agreement is terminated for cause, the Company will not have any obligation to provide any further payments or benefits to the Employee after the effective date of such termination.
- 6.1.3 Termination After Change in Control. If, during the term of this Agreement, there is a "Change of Control" and within one (1) year thereafter: (a) this Agreement expires and is not extended; or (b) the Employee is terminated other than under paragraphs 6.1.2, 6.3 or 6.4 based on adequate grounds; or (c) the Employee resigns as a result of a reassignment of duties inconsistent with the Employee's position or a reduction in the Employee's compensation under paragraph 4 of this Agreement, then the Employee will be entitled to a severance payment (in addition to any other amounts payable to the Employee under this Agreement or otherwise) in an amount equal to twelve (12) months compensation under paragraph 4.1 of this Agreement. The term "Change of Control" means any action of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A under the Securities Exchange Act of 1934 with respect to the Company including, without limitation (i) the direct or indirect acquisition by any person after the date hereof of beneficial ownership of the right to vote or securities of the Company representing the right to vote thirty-five percent (35%) or more of the combined voting power of the Company's then outstanding securities having the right to vote for the election of directors, or (ii) within two years of a tender offer or exchange offer for the voting stock of the Company or as a result of a merger, consolidation, sale of assets or contested election (or any combination of the foregoing), a majority of the members of the Company's board of directors is replaced by directors who were not nominated and approved by the board of directors. For purposes of the foregoing definition, the term "Company" includes any corporation, partnership or other entity which owns or controls the Company.

- 6.2 Termination by Employee. The Employee may voluntarily terminate this Agreement with or without cause by the service of written notice of such termination to the Company specifying an effective date of such termination thirty (30) days after the date of such notice, during which time Employee may use remaining accrued vacation days, or at the Company's option, be paid for such days. In the event this Agreement is terminated by the Employee, neither the Company nor the Employee will have any further obligations hereunder including, without limitation, any obligation of the Company to provide any further payments or benefits to the Employee after the effective date of such termination.
- 6.3 Incapacity of Employee. If the Employee suffers from a physical or mental condition which in the reasonable judgment of the Company's management prevents the Employee from performing the duties specified herein for a period of three (3) consecutive weeks, the Employee may be terminated and the termination shall be treated as a Termination Without Cause and any benefits payable hereunder will be continued through the Expiration Date. Notwithstanding the foregoing, the Employee's compensation under paragraph 4.4 of this Agreement will be reduced by any benefits payable under any disability plans.
- 6.4 Death of Employee. If the Employee dies during the term of this Agreement, the Company may thereafter terminate this Agreement without compensation to the Employee's estate except: (a) the obligation to continue the Base Salary payments under paragraph 4.1 of this Agreement for sixty (60) days; and (b) the benefits described in paragraph 4.4 of this Agreement accrued through the effective date of such termination.
- 6.5 Effect of Termination. The termination of this Agreement will terminate all obligations of the Employee to render services on behalf of the Company, provided that the Employee will maintain the confidentiality of all information acquired by the Employee during the term of this Agreement in accordance with paragraph 7 of this Agreement. Except as otherwise provided in paragraph 6 of this Agreement, no accrued bonus, severance pay or other form of compensation will be payable by the Company to the Employee by reason of the termination of this Agreement. All keys, credit cards, files, records, financial information, furniture, furnishings, equipment, supplies and other items relating to the Company will remain the property of the Company. The Employee will have the right to retain and remove all personal property and effects which are owned by the Employee and located in the offices of the Company. All such personal items will be removed from such offices no later than three (3) days after the effective date of termination, and the Company is hereby authorized to discard any items remaining and to reassign the Employee's office space after such date. Prior to the effective date of termination, the Employee will render such services to the Company as might be reasonably required to provide for the orderly termination of the Employee's employment.

7. Confidentiality. The Employee recognizes that the nature of the Employee's services are such that the Employee will have access to information which constitutes trade secrets, is of a confidential nature, is of great value to the Company and is

the foundation on which the business of the Company is predicated. The Employee agrees not to disclose to any person other than the Company's employees or the Company's legal counsel nor use for any purpose, other than the performance of this Agreement, any information, data or material (regardless of the form) which is: (a) a trade secret; (b) provided, disclosed or delivered to the Employee by the Company, any officer, director, employee, agent, attorney, accountant, consultant, or other person or entity employed by the Company in any capacity, any customer, borrower or business associate of the Company or any public authority having jurisdiction over the Company or any business activity conducted by the Company; or (c) produced, developed, obtained or prepared by or on behalf of the Employee or the Company (whether or not such information was developed in the performance of this Agreement) with respect to the Company or any assets, oil and gas prospects, business activities, officers, directors, employees, borrowers or customers of the foregoing. On request by the Company, the Company will be entitled to a copy of any such documents or such information in the possession of the Employee. The Employee also agrees that the provisions of this paragraph 7 will survive the termination, expiration or cancellation of this Agreement and that on termination, expiration or cancellation of this Agreement and that on termination, expiration or cancellation of this Agreement, the Employee will deliver to the Company all originals and copies of the information, data and material containing such information.

8. Noncompetition. For a period of twelve (12) months after Employee is no longer employed by the Company, Employee will not: (a) procure, solicit, or aid a "Partner" (as defined below) in the procurement or solicitation of an investment in oil and gas leases, mineral interests, the development of oil and gas assets or operation of oil and gas assets in any area in which Employee had any material responsibility during the Employee's employment by the Company (a "Partner" is any person or entity who has invested in such activities described above with the Company or the Company's affiliated corporations, partnerships or entities during the twelve (12) months preceding the end of Employee's employment by the Company); and (b) acquire, attempt to acquire or aid another in the acquisition or attempted acquisition of an interest in oil and gas assets, oil and gas production, oil and gas leases, mineral interests, oil and gas wells or other such oil and gas exploration, development or production activities within ten (10) miles of any operations or ownership interests of the Company or its affiliated corporations, partnerships or entities in the twelve (12) months preceding the end of Employee's employment.

9. Miscellaneous. The parties further agree as follows:

9.1 Time. Time is of the essence of each provision of this Agreement.

9.2 Notices. Any notice, payment, demand or communication required or permitted to be given by any provision of this Agreement will be in writing and will be deemed to have been given when delivered personally or by telefacsimile to the party designated to receive such notice, or on the date following the day sent by overnight courier, or on the third (3rd) business day after the same is sent by certified mail, postage and charges prepaid, directed to the following address or to such other or additional addresses as any party might designate by written notice to the other party:

To the Company: Chesapeake Operating, Inc.
Post Office Box 18496
Oklahoma City, OK 73154
Attn: Mr. Aubrey K. McClendon

To the Employee: Martha A. Burger
3005 Red Oak Road
Oklahoma City, OK 73120

- 9.3 Assignment. Neither this Agreement nor any of the parties' rights or obligations hereunder can be transferred or assigned without the prior written consent of the other parties to this Agreement.
- 9.4 Construction. If any provision of this Agreement or the application thereof to any person or circumstances is determined, to any extent, to be invalid or unenforceable, the remainder of this Agreement, or the application of such provision to persons or circumstances other than those as to which the same is held invalid or unenforceable, will not be affected thereby, and each term and provision of this Agreement will be valid and enforceable to the fullest extent permitted by law. This Agreement is intended to be interpreted, construed and enforced in accordance with the laws of the State of Oklahoma and any litigation relating to this Agreement will be conducted in a court of competent jurisdiction sitting in Oklahoma County, Oklahoma.
- 9.5 Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter herein contained, and no modification hereof will be effective unless made by a supplemental written agreement executed by all of the parties hereto.
- 9.6 Binding Effect. This Agreement will be binding on the parties and their respective successors, legal representatives and permitted assigns. In the event of a merger, consolidation, combination, dissolution or liquidation of the Company, the performance of this Agreement will be assumed by any entity which succeeds to or is transferred the business of the Company as a result thereof.
- 9.7 Attorneys' Fees. If any party institutes an action or proceeding against any other party relating to the provisions of this Agreement or any default hereunder, the unsuccessful party to such action or proceeding will reimburse the successful party therein for the reasonable expenses of attorneys' fees and disbursements and litigation expenses incurred by the successful party.
- 9.8 Supersession. This Agreement is the final, complete and exclusive expression of the agreement between the Company and the Employee and supersedes and replaces in all respects any other agreements between the Company and the Employee. On execution of this agreement by the Company and the Employee, the relationship between the Company and the Employee will be governed by the terms of this Agreement and not by any other agreements, oral or otherwise.

IN WITNESS WHEREOF, the undersigned have executed this Agreement effective the date first above written.

CHESAPEAKE OPERATING, INC., an
Oklahoma corporation

By /s/ Aubrey K. McClendon

AUBREY K. MCCLENDON, President

(the "Company")

 /s/ Martha A. Burger

MARTHA A. BURGER, individually

(the "Employee")

EXHIBIT 11
CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
STATEMENT OF NET INCOME PER SHARE
(\$ IN THOUSANDS, EXCEPT PER SHARE)

	Years Ended June 30,		
	1996	1995	1994
PRIMARY INCOME PER SHARE			
Net income applicable to Common Stock	\$23,355 =====	\$11,661 =====	\$ 3,905 =====
Weighted average common shares outstanding	27,282	26,312	22,986
Adjustment to weighted average common shares outstanding:			
Add dilutive effect of:			
TCW Warrants	-	-	446
Detachable stock warrants	-	-	553
Employee Options	1,889	1,624	135
	-----	-----	-----
Weighted average common shares outstanding, as adjusted	29,171 =====	27,936 =====	24,120 =====
Net income per common share, as adjusted	\$.80 =====	\$.42 =====	\$.16 =====
FULLY DILUTED INCOME PER SHARE			
Net income applicable to Common Stock as shown in primary computation above	\$23,355 =====	\$11,661 =====	\$ 3,905 =====
Weighted average common shares outstanding	27,282	26,312	22,986
Adjustment to weighted average common shares outstanding:			
Add fully dilutive effect of:			
TCW Warrants	-	-	486
Detachable Stock Warrants	-	-	553
Employee Options	2,179	1,991	158
	-----	-----	-----
Weighted average common shares outstanding, as adjusted	29,461 =====	28,303 =====	24,183 =====
Fully diluted net income per common share	\$.79 =====	\$.41 =====	\$.16 =====

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, 33-88196 and 333-07255) and Form S-3 (File Nos. 333-04027 and 333-12533) of our reports dated September 13, 1996, on our audits of the consolidated financial statements of Chesapeake Energy Corporation and the financial statements of Chesapeake Exploration Limited Partnership as of June 30, 1996, and for the year then ended, which reports are included in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.

Oklahoma City, Oklahoma
September 25, 1996

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the registration statements on Form S-8 (File Nos. 33-84256, 33-84258, 33-88196 and 333-07255) and Form S-3 (File Nos. 333-04027 and 333-12533) of Chesapeake Energy Corporation of our report dated September 20, 1995 on our audit of the consolidated financial statements of Chesapeake Energy Corporation appearing on page 31 of this Form 10-K and our report dated September 20, 1995 on our audit of the financial statements of Chesapeake Exploration Limited Partnership appearing on page 63 of the Form 10-K.

/s/ PRICE WATERHOUSE LLP

PRICE WATERHOUSE LLP

Houston, Texas
September 23, 1996

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, Effective June 30, 1996, for Disclosure to the Securities and Exchange Commission, Williamson Project 6.8400" dated September 13, 1996 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 September 30, 1996 and (b) to the incorporation by reference of this Form 10-K for the year ending June 30, 1996 in the Registration Statements on Form S-8 (Nos. 33-84256, 33-84258, 33-88196, and 333-07255) and on Form S-3 (Nos. 333-04027 and 333-12533)

/s/ WILLIAMSON PETROLEUM CONSULTANTS, INC.

WILLIAMSON PETROLEUM CONSULTANTS, INC.

Houston, Texas
September 30, 1996

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM BALANCE SHEET AS OF JUNE 30, 1996 AND STATEMENT OF INCOME FOR 12 MONTHS ENDED JUNE 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-K JUNE 30, 1996

1,000

YEAR		
	JUN-30-1996	
	JUL-01-1995	
	JUN-30-1996	51,638
		0
		50,554
		340
		5,163
	109,173	
		546,816
		95,642
		572,335
108,834		
		268,431
	0	
		0
		3,008
		174,759
572,335		
		145,591
	149,422	
		40,650
		113,213
		0
		0
	13,679	
		36,209
		12,854
23,355		
		0
		0
		0
		23,355
		.80
		.79