

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 1996

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

For the transition period from _____ to _____

Commission File No. 1-13726

CHESAPEAKE ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

Oklahoma
(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)

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

At January 31, 1997, there were 69,562,725 shares of the registrant's \$.01 par value Common Stock outstanding.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

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CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS	December 31, 1996	June 30, 1996
	-----	-----
	(\$ in thousands)	
CURRENT ASSETS:		
Cash and cash equivalents	\$140,739	\$ 51,638
Short-term investments	29,092	-
Accounts receivable:		
Oil and gas sales	15,313	12,687
Oil and gas marketing sales	20,793	6,982
Joint interest and other, net of allowance for doubtful accounts of \$198,000 and \$340,000	26,066	27,661
Related parties	4,000	2,884
Inventory	7,071	5,163
Other	7,199	2,158
	-----	-----
Total Current Assets	250,273	109,173
	=====	=====
PROPERTY AND EQUIPMENT:		
Oil and gas properties, at cost based on full cost accounting:		
Evaluated oil and gas properties	527,566	363,213
Unevaluated properties	181,774	165,441
Less: accumulated depreciation, depletion and amortization	(128,963)	(92,720)
	-----	-----
	580,377	435,934
Other property and equipment	22,052	18,162
Less: accumulated depreciation and amortization	(3,880)	(2,922)
	-----	-----
Total Property and Equipment	598,549	451,174
	-----	-----
OTHER ASSETS	11,775	11,988
	-----	-----
TOTAL ASSETS	\$860,597	\$572,335
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable and current maturities of long- term debt	\$ 6,718	\$ 6,755
Accounts payable	72,256	54,514
Accrued liabilities and other	10,144	14,062
Revenues and royalties due others	37,974	33,503
	-----	-----
Total Current Liabilities	127,092	108,834
	-----	-----
LONG-TERM DEBT, NET	220,149	268,431
	-----	-----
REVENUES AND ROYALTIES DUE OTHERS	6,126	5,118
	-----	-----
DEFERRED INCOME TAXES	23,168	12,185
	-----	-----
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$.01 par value, 10,000,000 shares authorized; none issued	-	-
Common Stock, 100,000,000 shares authorized; \$.01 par value at December 31, 1996, \$.10 par value at June 30, 1996; 69,276,935 and 60,159,826 shares issued and outstanding at December 31, 1996 and June 30, 1996, respectively	693	3,008
Paid-in capital	426,914	136,782
Accumulated earnings	56,455	37,977
	-----	-----
Total Stockholders' Equity	484,062	177,767
	-----	-----

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$860,597
=====

\$572,335
=====

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(in thousands, except per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	1996	1995	1996	1995
REVENUES:				
Oil and gas sales	\$53,414	\$26,519	\$90,167	\$46,350
Oil and gas marketing sales	17,835	3,787	30,019	3,787
Oil and gas service operations	-	1,460	-	3,618
Interest and other	1,668	277	2,516	1,791
	72,917	32,043	122,702	55,546
COSTS AND EXPENSES				
Production expenses and taxes	3,344	2,007	5,874	3,703
Oil and gas marketing expenses	17,682	3,766	29,548	3,766
Oil and gas service operations	-	1,167	-	3,019
Oil and gas depreciation, depletion and amortization	19,214	11,798	36,243	22,234
Depreciation and amortization of other assets	884	689	1,836	1,384
General and administrative	2,068	971	3,739	1,912
Interest	3,399	3,181	6,216	6,544
	46,591	23,579	83,456	42,562
INCOME BEFORE INCOME TAX AND EXTRAORDINARY ITEM	26,326	8,464	39,246	12,984
INCOME TAX EXPENSE				
Current	-	-	-	-
Deferred	9,609	3,005	14,325	4,609
	9,609	3,005	14,325	4,609
INCOME BEFORE EXTRAORDINARY ITEM	16,717	5,459	24,921	8,375
EXTRAORDINARY ITEM:				
Loss on early extinguishment of debt, net of applicable income tax of \$3,703	(6,443)	-	(6,443)	-
	\$10,274	\$ 5,459	\$18,478	\$ 8,375
	=====	=====	=====	=====
NET EARNINGS PER COMMON SHARE AND COMMON SHARE EQUIVALENT (PRIMARY)				
Income before extraordinary item	\$.25	\$.10	\$.38	\$.15
Extraordinary item	(.10)	-	(.10)	-
	\$.15	\$.10	\$.28	\$.15
	=====	=====	=====	=====
NET EARNINGS PER COMMON SHARE AND COMMON SHARE EQUIVALENT (FULLY DILUTED)				
Income before extraordinary item	\$.25	\$.09	\$.38	\$.14
Extraordinary item	(.10)	-	(.10)	-
	\$.15	\$.09	\$.28	\$.14
	=====	=====	=====	=====
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING				

Primary	68,108	57,454	66,300	57,148
	=====	=====	=====	=====
Fully-diluted	68,108	58,044	66,300	57,968
	=====	=====	=====	=====

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended December 31,	
	1996	1995
	----- (\$ in thousands) -----	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$18,478	\$ 8,375
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	37,317	23,044
Deferred taxes	10,622	4,609
Amortization of loan costs	762	574
Amortization of bond discount	191	280
Gain on sale of fixed assets and other	(522)	(412)
Investments in securities, net	(34,777)	406
Extraordinary item before income tax benefit	10,146	-
Equity in earnings of subsidiary	(178)	-
Other adjustments	-	(130)
Changes in current assets and liabilities	(138)	10,383
	-----	-----
Cash provided by operating activities	41,901	47,129
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Exploration, development and acquisition of oil and gas properties	(186,753)	(91,160)
Proceeds from sale of assets	12,274	6,473
Investment in gas marketing company, net of cash acquired	-	(320)
Investment in service operations	(3,048)	-
Long-term loan made to a third party	(2,000)	-
Additions to property, equipment and other	(4,622)	(3,671)
	-----	-----
Cash used in investing activities	(184,149)	(88,678)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings	50,000	16,650
Payments on long-term borrowings	(106,831)	(2,181)
Cash received from issuance of common stock	288,091	-
Cash received from exercise of stock options	273	458
Other financing	(184)	-
	-----	-----
Cash provided by financing activities	231,349	14,927
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	89,101	(26,622)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	51,638	55,535
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$140,739	\$ 28,913
	=====	=====

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996
(Unaudited)

1. Accounting Principles

The accompanying unaudited consolidated financial statements of Chesapeake Energy Corporation and Subsidiaries (the "Company") have been prepared in accordance with the instructions to Form 10-Q as prescribed by the Securities and Exchange Commission. All material adjustments (consisting solely of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods have been reflected. The results for the three months and six months ended December 31, 1996, are not necessarily indicative of the results to be expected for the full fiscal year.

2. Recent Events

On November 25, 1996, the Company issued 8,000,000 shares of Common Stock in a public offering at a price of \$33.63 per share, which resulted in net proceeds to the Company of approximately \$256.9 million. On December 2, 1996, the underwriters of the Company's Common Stock offering exercised an over-allotment option to purchase an additional 972,000 shares of Common Stock at a price of \$33.63 per share, resulting in additional net proceeds to the Company of approximately \$31.2 million, and total proceeds of \$288.1 million.

Using a portion of the proceeds from the Common Stock offering, the Company exercised its covenant defeasance rights under Section 8.03 of the Indenture dated as of March 31, 1994 with respect to all of its outstanding \$47.5 million of 12% Senior Notes. A combination of cash and non-callable U.S. Government Securities in the amount of \$55 million was irrevocably deposited in trust to satisfy the Company's obligations, including accrued but unpaid interest through the date of defeasance of \$1.3 million. The Company also repaid in full the outstanding balance of its revolving bank credit facility.

Effective December 31, 1996, the Company changed its state of incorporation from Delaware to Oklahoma. As part of this transaction, the authorized capital stock of the Company was increased to 100,000,000 shares of common stock, par value \$.01 per share, and 10,000,000 shares of preferred stock, par value \$.01 per share. Also effective December 31, 1996, the Company effected a 2-for-1 split of its common stock. All par value, share and per share information, common stock options and exercise prices included in these consolidated financial statements and related footnotes have been restated to reflect the stock split.

3. Legal Proceedings

On October 15, 1996, Union Pacific Resources Company ("UPRC") filed suit against the Company alleging patent infringement and tortious interference with contracts regarding confidentiality and proprietary information of UPRC. UPRC is seeking injunctive relief and damages in an unspecified amount, including actual, enhanced, consequential and punitive damages. The Company believes it has meritorious defenses to the allegations, including its belief that the subject patent is invalid. Given the subject of the claims, the Company is unable to predict the outcome of the matter or estimate a range of financial exposure.

4. Senior Notes

10 1/2% Notes

The Company has outstanding \$90 million in aggregate principal amount of 10 1/2% Notes which mature June 2002. The 10 1/2% Notes bear interest at an annual rate of 10 1/2%, payable semiannually on each June 1 and December 1. The 10 1/2% Notes are senior, unsecured obligations of the Company, and are fully and unconditionally guaranteed, jointly and severally, by certain subsidiaries of the Company (the "Guarantor Subsidiaries").

9 1/8% Notes

The Company has outstanding \$120 million in aggregate principal amount of 9 1/8% Senior Notes due 2006 which mature April 15, 2006. The 9 1/8% Notes bear interest at an annual rate of 9 1/8%, payable semiannually on each April 15 and October 15. The 9 1/8% Notes are senior, unsecured obligations of the Company, and are fully and unconditionally guaranteed, jointly and severally, by the Guarantor Subsidiaries.

Set forth below are condensed consolidating financial statements of the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries and the Company.

Separate financial statements of each Guarantor Subsidiary have not been included because management has determined that they are not material to investors.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996
(unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 1996
(\$ in thousands)

	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Company (Parent)	Eliminations	Consolidated

ASSETS					
CURRENT ASSETS:					
Cash and cash equivalent	\$ 4,782	\$ 6,182	\$ 129,775	\$ -	\$140,739
Accounts receivable, net	53,866	21,369	-	(9,063)	66,172
Inventory	6,702	369	-	-	7,071
Other	931	33	35,327	-	36,291

Total Current Assets	66,281	27,953	165,102	(9,063)	250,273

PROPERTY AND EQUIPMENT:					
Oil and gas properties	502,928	24,638	-	-	527,566
Unevaluated leasehold	181,774	-	-	-	181,774
Other property and equipment	10,824	103	11,125	-	22,052
Less: accumulated depreciation, depletion and amortization	(122,962)	(9,287)	(594)	-	(132,843)

Total Property & Equipment	572,564	15,454	10,531	-	598,549

INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES	628,415	6,850	514,075	(1,149,340)	-

OTHER ASSETS	4,482	1,019	6,274	-	11,775

TOTAL ASSETS	\$1,271,742	\$ 51,276	\$695,982	\$(1,158,403)	\$860,597
	=====				
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt	\$ 4,268	\$ 2,450	\$ -	\$ -	\$ 6,718
Accounts payable and other	104,859	21,389	3,189	(9,063)	120,374

Total Current Liabilities	109,127	23,839	3,189	(9,063)	127,092

LONG-TERM DEBT	1,486	8,740	209,923	-	220,149

REVENUES PAYABLE	6,126	-	-	-	6,126

DEFERRED INCOME TAXES	14,916	1,014	7,238	-	23,168

INTERCOMPANY PAYABLES	1,057,860	7,917	79,793	(1,145,570)	-

STOCKHOLDERS' EQUITY:					
Common Stock	116	2	577	(2)	693
Other	82,111	9,764	395,262	(3,768)	483,369

Total Stockholders' Equity	82,227	9,766	395,839	(3,770)	484,062

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,271,742	\$ 51,276	\$695,982	\$(1,158,403)	\$860,597
	=====				

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996
(unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF JUNE 30, 1996
(\$ in thousands)

	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Company (Parent)	Eliminations	Consolidated
	-----	-----	-----	-----	-----
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 4,061	\$ 2,751	\$ 44,826	\$ -	\$ 51,638
Accounts receivable, net	44,080	7,723	-	(1,589)	50,214
Inventory	4,947	216	-	-	5,163
Other	2,155	3	-	-	2,158
	-----	-----	-----	-----	-----
Total Current Assets	55,243	10,693	44,826	(1,589)	109,173
	-----	-----	-----	-----	-----
PROPERTY AND EQUIPMENT:					
Oil and gas properties	338,610	24,603	-	-	363,213
Unevaluated leasehold	165,441	-	-	-	165,441
Other property and equipment	9,608	61	8,493	-	18,162
Less: accumulated depreciation, depletion and amortization	(87,193)	(8,007)	(442)	-	(95,642)
	-----	-----	-----	-----	-----
Total Property & Equipment	426,466	16,657	8,051	-	451,174
	-----	-----	-----	-----	-----
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES	519,386	8,132	382,388	(909,906)	-
	-----	-----	-----	-----	-----
OTHER ASSETS	2,310	940	8,738	-	11,988
	-----	-----	-----	-----	-----
TOTAL ASSETS	\$1,003,405	\$ 36,422	\$444,003	\$(911,495)	\$572,335
	=====	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt	\$ 3,846	\$ 2,880	\$ 29	\$ -	\$ 6,755
Accounts payable and other	91,069	7,339	5,260	(1,589)	102,079
	-----	-----	-----	-----	-----
Total Current Liabilities	94,915	10,219	5,289	(1,589)	108,834
	-----	-----	-----	-----	-----
LONG-TERM DEBT	2,113	10,020	256,298	-	268,431
	-----	-----	-----	-----	-----
REVENUES PAYABLE	5,118	-	-	-	5,118
	-----	-----	-----	-----	-----
DEFERRED INCOME TAXES	23,950	1,335	(13,100)	-	12,185
	-----	-----	-----	-----	-----
INTERCOMPANY PAYABLES	824,307	8,182	73,647	(906,136)	-
	-----	-----	-----	-----	-----
STOCKHOLDERS' EQUITY:					
Common Stock	117	2	2,891	(2)	3,008
Other	52,885	6,664	118,978	(3,768)	174,759
	-----	-----	-----	-----	-----
Total Stockholders' Equity	53,002	6,666	121,869	(3,770)	177,767
	-----	-----	-----	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,003,405	\$ 36,422	\$444,003	\$(911,495)	\$572,335
	=====	=====	=====	=====	=====

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996
(unaudited)

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
(\$ in thousands)

	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Company (Parent)	Eliminations	Consolidated
	-----	-----	-----	-----	-----
For the Three Months Ended December 31, 1996:					
REVENUES:					
Oil and gas sales	\$ 51,147	\$ 1,888	\$ -	\$ 379	\$ 53,414
Oil and gas marketing sales	-	36,693	-	(18,858)	17,835
Interest and other	52	162	1,454	-	1,668
	-----	-----	-----	-----	-----
Total Revenues	51,199	38,743	1,454	(18,479)	72,917
	-----	-----	-----	-----	-----
COSTS AND EXPENSES:					
Production expenses and taxes	3,116	228	-	-	3,344
Oil and gas marketing expenses	-	36,161	-	(18,479)	17,682
Oil and gas depreciation, depletion and amortization	18,577	637	-	-	19,214
Other depreciation and amortization	509	40	335	-	884
General and administrative	1,370	259	439	-	2,068
Interest	275	122	3,002	-	3,399
	-----	-----	-----	-----	-----
Total Costs & Expenses	23,847	37,447	3,776	(18,479)	46,591
	-----	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	27,352	1,296	(2,322)	-	26,326
INCOME TAX EXPENSE (BENEFIT)	9,983	474	(848)	-	9,609
	-----	-----	-----	-----	-----
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	17,369	822	(1,474)	-	16,717
	-----	-----	-----	-----	-----
EXTRAORDINARY ITEM:					
Loss on early extinguishment of debt, net of applicable income tax	(590)	-	(5,853)	-	(6,443)
	-----	-----	-----	-----	-----
NET INCOME (LOSS)	\$ 16,779	\$ 822	\$(7,327)	\$ -	\$ 10,274
	=====	=====	=====	=====	=====
For the Three Months Ended December 31, 1995:					
REVENUES:					
Oil and gas sales	\$ 24,925	\$ 1,594	\$ -	\$ -	\$ 26,519
Gas marketing sales	-	4,370	-	(583)	3,787
Oil and gas service operations	1,460	-	-	-	1,460
Interest and other	215	6	56	-	277
	-----	-----	-----	-----	-----
Total revenues	26,600	5,970	56	(583)	32,043
	-----	-----	-----	-----	-----
COSTS AND EXPENSES:					
Production expenses and taxes	1,844	163	-	-	2,007
Gas marketing expenses	-	4,349	-	(583)	3,766
Oil and gas service operations	1,167	-	-	-	1,167
Oil and gas depreciation	11,179	619	-	-	11,798
Other depreciation and amortization	418	13	258	-	689
General and administrative	686	67	218	-	971
Interest	42	165	2,974	-	3,181
	-----	-----	-----	-----	-----
Total Costs & Expenses	15,336	5,376	3,450	(583)	23,579
	-----	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAX	11,264	594	(3,394)	-	8,464
	-----	-----	-----	-----	-----
INCOME TAX EXPENSE	4,958	316	(2,269)	-	3,005
	-----	-----	-----	-----	-----
NET INCOME (LOSS)	\$ 6,306	\$ 278	\$(1,125)	\$ -	\$ 5,459
	=====	=====	=====	=====	=====

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996
(unaudited)

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
(\$ in thousands)

	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Company (Parent)	Eliminations	Consolidated
For the Six Months Ended December 31, 1996:					
REVENUES:					
Oil and gas sales	\$ 85,936	\$ 3,579	\$ -	\$ 652	\$ 90,167
Oil and gas marketing sales	-	58,607	-	(28,588)	30,019
Interest and other	167	571	1,778	-	2,516
	-----	-----	-----	-----	-----
Total Revenues	86,103	62,757	1,778	(27,936)	122,702
	-----	-----	-----	-----	-----
COSTS AND EXPENSES:					
Production expenses and taxes	5,463	411	-	-	5,874
Oil and gas marketing expenses	-	57,484	-	(27,936)	29,548
Oil and gas depreciation, depletion and amortization	34,950	1,293	-	-	36,243
Other depreciation and amor- tization	1,043	71	722	-	1,836
General and administrative	2,543	495	701	-	3,739
Interest	308	227	5,681	-	6,216
	-----	-----	-----	-----	-----
Total Costs & Expenses	44,307	59,981	7,104	(27,936)	83,456
	-----	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM					
	41,796	2,776	(5,326)	-	39,246
INCOME TAX EXPENSE (BENEFIT)	15,255	1,014	(1,944)	-	14,325
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	-----	-----	-----	-----	-----
	26,541	1,762	(3,382)	-	24,921
	-----	-----	-----	-----	-----
EXTRAORDINARY ITEM:					
Loss on early extinguishment of debt, net of applicable income tax	(590)	-	(5,853)	-	(6,443)
	-----	-----	-----	-----	-----
NET INCOME (LOSS)	\$ 25,951	\$ 1,762	\$(9,235)	\$ -	\$ 18,478
	=====	=====	=====	=====	=====

For the Six Months Ended December 31, 1995:

REVENUES:					
Oil and gas sales	\$ 43,533	\$ 2,817	\$ -	\$ -	\$ 46,350
Gas marketing sales	-	4,370	-	(583)	3,787
Oil and gas service operations	3,618	-	-	-	3,618
Interest and other	1,236	6	549	-	1,791
	-----	-----	-----	-----	-----
Total Revenues	48,387	7,193	549	(583)	55,546
	-----	-----	-----	-----	-----
COSTS AND EXPENSES:					
Production expenses and taxes	3,392	311	-	-	3,703
Gas marketing expenses	-	4,349	-	(583)	3,766
Oil and gas service operations	3,019	-	-	-	3,019
Oil and gas depreciation, depletion and amortization	21,059	1,175	-	-	22,234
Other depreciation and amor- tization	850	17	517	-	1,384
General and administrative	1,499	101	312	-	1,912
Interest	81	350	6,113	-	6,544
	-----	-----	-----	-----	-----
Total Costs & Expenses	29,900	6,303	6,942	(583)	42,562
	-----	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAX					
	18,487	890	(6,393)	-	12,984
INCOME TAX EXPENSE (BENEFIT)	6,562	316	(2,269)	-	4,609
NET INCOME (LOSS)	-----	-----	-----	-----	-----
	\$ 11,925	\$ 574	\$(4,124)	\$ -	\$ 8,375
	=====	=====	=====	=====	=====

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996
(unaudited)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
(\$ in thousands)

	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Company (Parent)	Elimination	Consolidated
	-----	-----	-----	-----	-----
For the Six Months Ended December 31, 1996:					
CASH FLOWS FROM OPERATING ACTIVITIES:					
	\$ 89,669	\$(5,642)	\$(42,126)	\$ -	\$ 41,901
CASH FLOWS FROM INVESTING ACTIVITIES:					
Oil and gas properties	(186,718)	(35)	-	-	(186,753)
Proceeds from sale of assets	12,274	-	-	-	12,274
Investment in service operations	(3,048)	-	-	-	(3,048)
Other additions	(4,185)	(204)	(2,233)	-	(6,622)
	-----	-----	-----	-----	-----
	(181,677)	(239)	(2,233)	-	(184,149)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings	50,000	-	-	-	50,000
Payments on borrowings	(51,246)	(1,710)	(53,875)	-	(106,831)
Cash received from exercise of stock options	-	-	273	-	273
Cash received from issuance of common stock	-	-	288,091	-	288,091
Other financing	-	-	(184)	-	(184)
Intercompany advances, net	93,975	11,022	(104,997)	-	-
	-----	-----	-----	-----	-----
	92,729	9,312	129,308	-	231,349
Net increase (decrease) in cash					
	721	3,431	84,949	-	89,101
Cash, beginning of period	4,061	2,751	44,826	-	51,638
	-----	-----	-----	-----	-----
Cash, end of period	\$ 4,782	\$ 6,182	\$129,775	\$ -	\$140,739
	=====	=====	=====	=====	=====
For the Six Months Ended December 31, 1995:					
CASH FLOWS FROM OPERATING ACTIVITIES:					
	\$ 50,475	\$ 599	\$(3,945)	\$ -	\$ 47,129
CASH FLOWS FROM INVESTING ACTIVITIES:					
Oil and gas properties	(84,998)	(11,462)	-	5,300	(91,160)
Proceeds from sales	11,773	-	-	(5,300)	6,473
Investment in gas marketing company	-	256	(576)	-	(320)
Other additions	(2,812)	(25)	(834)	-	(3,671)
	-----	-----	-----	-----	-----
	(76,037)	(11,231)	(1,410)	-	(88,678)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from long-term borrowings	11,350	5,300	-	-	16,650
Payments on borrowings	(582)	(1,585)	(14)	-	(2,181)
Cash received from exercise of stock options	-	-	458	-	458
Intercompany advances, net	(57,930)	9,738	48,192	-	-
	-----	-----	-----	-----	-----
	(47,162)	13,453	48,636	-	14,927
Net increase (decrease) in cash and cash equivalents					
	(72,724)	2,821	43,281	-	(26,622)
Cash, beginning of period	53,227	5	2,303	-	55,535
	-----	-----	-----	-----	-----
Cash, end of period	\$(19,497)	\$ 2,826	\$ 45,584	\$ -	\$ 28,913
	=====	=====	=====	=====	=====

PART I. FINANCIAL INFORMATION
ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

RECENT EVENTS

On November 25, 1996, the Company issued 8,000,000 shares of Common Stock in a public offering at a price of \$33.63 per share, which resulted in net proceeds to the Company of approximately \$256.9 million. On December 2, 1996, the underwriters of the Company's Common Stock offering exercised an over-allotment option to purchase an additional 972,000 shares of Common Stock at a price of \$33.63 per share, resulting in additional net proceeds to the Company of approximately \$31.2 million, and total proceeds of \$288.1 million.

Using a portion of the proceeds from the Common Stock offering, the Company exercised its covenant defeasance rights under Section 8.03 of the Indenture dated as of March 31, 1994, with respect to all of its outstanding \$47.5 million of 12% Senior Notes. A combination of cash and non-callable U.S. Government Securities in the amount of \$55.0 million was irrevocably deposited in trust to satisfy the Company's obligations, including accrued but unpaid interest through the date of defeasance of \$1.3 million. The Company also repaid in full the outstanding balance of its revolving bank credit facility.

Effective December 31, 1996, the Company changed its state of incorporation from Delaware to Oklahoma. As part of this transaction, the authorized capital stock of the Company was increased to 100,000,000 shares of common stock, par value \$.01 per share, and 10,000,000 shares of preferred stock, par value \$.01 per share. Also effective December 31, 1996, the Company effected a 2-for-1 split of its common stock. All par value, share and per share information, common stock options and exercise prices included in these consolidated financial statements and related footnotes have been restated to reflect the stock split.

RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 1996 VS. DECEMBER 31, 1995

Net income for the three months ended December 31, 1996 (the "Current Quarter") was \$10.3 million, a \$4.8 million increase from net income of \$5.5 million for the quarter ended December 31, 1995 (the "Prior Quarter"), after giving effect to an extraordinary loss of \$6.4 million (net of income tax) incurred during the Current Quarter. This increase in net income was caused primarily by the Company's significantly higher oil and gas production and increases in oil and gas sales prices.

Revenues from oil and gas sales for the Current Quarter were \$53.4 million, an increase of \$26.9 million, or 101%, from the Prior Quarter. Gas production increased to 14.8 billion cubic feet ("Bcf"), an increase of 2.5 Bcf, or 20%, compared to the Prior Quarter. Oil production increased 266 thousand barrels ("MBbls"), or 76%, from 352 MBbls to 618 MBbls. The increase in oil and gas production was accompanied by increases in the average oil and gas prices realized. In the Current Quarter, the Company received an average oil price of \$22.43 per barrel ("Bbl"), net of hedging losses of \$0.8 million. This was an increase of \$5.15 per Bbl, or 30%, from the \$17.28 per Bbl realized in the Prior Quarter. Gas price realizations increased to \$2.68 per thousand cubic feet ("Mcf") in the Current Quarter, net of hedging losses of \$0.8 million, an increase of 61% from the \$1.66 per Mcf realized in the Prior Quarter.

The following table sets forth oil and gas production for the Company's primary operating areas during the Current Quarter.

Operating Areas	Producing Wells	Oil (MBbls)	Gas (MMcf)	Total (MMcfe)	Percent %
Giddings	195	158	9,475	10,423	56%
Southern Oklahoma	205	149	3,237	4,131	22%
Louisiana Trend	26	238	1,068	2,496	14%
All Other	115	73	991	1,429	8%
	---	---	-----	-----	-----
Total	541	618	14,771	18,479	100%

=====
=====
=====
=====
=====
Includes wells being drilled at December 31, 1996

Revenues from the Company's oil and gas marketing operations in the Current Quarter, which commenced in December 1995 with the purchase of Chesapeake Energy Marketing, Inc. ("CEM"), were \$17.8 million compared to \$3.8 million in the Prior Quarter. The Prior Quarter included only one month of operations. Oil and gas marketing expenses were \$17.7 million during the Current Quarter, resulting in a gross profit margin of \$0.1 million. In the Prior Quarter the gross profit margin was \$21,000.

The Company had no revenues or expenses for oil and gas service operations in the Current Quarter, as a result of the sale of this business in June 1996 to Peak USA Energy Services, Ltd. ("Peak"). Peak is a limited partnership formed by Peak Oilfield Services Company (a joint venture between Cook Inlet Region, Inc. and Nabors Industries, Inc.) and the Company.

Production expenses and taxes increased to \$3.3 million in the Current Quarter from \$2.0 million in the Prior Quarter. This increase was the result of a significant increase in oil and gas production volumes during the Current Quarter, higher oil and gas prices which increased severance taxes and slightly higher lifting costs per unit of production. On a gas equivalent production unit ("Mcf") basis, production expenses and taxes were \$0.18 per Mcf in the Current Quarter compared to \$0.14 per Mcf in the Prior Quarter. Much of the Company's gas production from wells drilled before September 1996 in the downdip Giddings Field qualifies for exemption from Texas state production taxes for production through August 31, 2001. Additionally, certain oil and gas production from the Company's wells in the Knox and Sholem Alechem fields in Oklahoma and the Louisiana Austin Chalk Trend qualifies for production tax exemption until well costs are recovered. These exemptions, combined with the fact that many of the Company's wells are high volume gas wells that tend to have lower operating costs per Mcf than lower volume wells, help generate the Company's historically low production costs per Mcf. The Company expects that operating costs in fiscal 1997 will continue to increase because of the Company's expansion of drilling efforts into the Louisiana Trend and the Williston Basin, both of which are oil prone areas with significant associated water production which results in higher operating costs than gas prone areas, and because severance tax exemptions will be more limited in these areas compared to existing exemptions in the Giddings Field.

Depreciation, depletion and amortization ("DD&A") of oil and gas properties for the Current Quarter was \$19.2 million, an increase of \$7.4 million from the Prior Quarter. The increase in DD&A expense for oil and gas properties between quarters is the result of a 4.1 billion cubic feet equivalent ("Bcfe") increase in production volumes and an increase in the DD&A rate per Mcf. The average DD&A rate per Mcf, a function of capitalized and estimated future development costs and the related proved reserves, was \$1.04 for the Current Quarter and \$0.82 for the Prior Quarter. The Company believes the DD&A rate will continue to increase during fiscal 1997 based on projected higher finding costs for wells drilled in the Louisiana Trend.

Depreciation and amortization of other assets increased to \$0.9 million in the Current Quarter compared to \$0.7 million in the Prior Quarter. This increase is primarily the result of higher amortization expense related to debt issuance costs, and higher depreciation related to the Company's acquisition of additional buildings and equipment in its Oklahoma City headquarters complex to support the Company's growth.

General and administrative expenses increased to \$2.1 million during the Current Quarter, a \$1.1 million, or 110%, increase from the Prior Quarter. This increase is the result of the continued growth of the Company. General and administrative expenses were \$0.11 per Mcf in the Current Quarter as compared to \$0.07 per Mcf in the Prior Quarter. The Company capitalized \$0.4 million and \$0.1 million of payroll and other internal costs directly related to oil and gas exploration and development activities, net of partner reimbursements, in the Current Quarter and Prior Quarter, respectively.

Interest expense increased to \$3.4 million during the Current Quarter, from \$3.2 million in the Prior Quarter, as a result of higher levels of interest costs due to increased levels of total debt during the Current Quarter. During the Current Quarter, the Company capitalized \$3.4 million of interest costs representing the estimated costs to carry its unevaluated leasehold inventory, compared to the \$1.1 million in the Prior Quarter. This increase in capitalized interest costs is the result of larger investments being carried during the Current Quarter in leasehold that have yet to be evaluated than in the Prior Quarter.

Income tax expense increased to \$9.6 million in the Current Quarter (before

giving effect to the income tax benefit applicable to the extraordinary item) from \$3.0 million in the Prior Quarter. The Company's estimated effective income tax rate was 36.5% for the Current Quarter, compared to 35.5% for the Prior Quarter. The Company estimates its effective rate based on anticipated levels of income for the year, estimated production in excess of that allowed in computing statutory depletion for tax purposes, the interplay between state location of production revenue and the related state income tax, and other factors. The provision for income tax expense is deferred because the Company is not currently a cash income taxpayer. The Company has significant tax net operating loss carryforwards generated from the intangible drilling cost deduction for income tax purposes associated with the Company's drilling activities which are available to offset regular taxable income in the future.

The Company recorded an extraordinary loss in the Current Quarter of \$6.4 million, net of applicable income tax effect of \$3.7 million. This loss was the result of the Company retiring by defeasance all of its \$47.5 million 12% Senior Notes and paying all amounts outstanding under the Company's revolving bank credit facility from the proceeds of an equity offering concluded during the Current Quarter.

SIX MONTHS ENDED DECEMBER 31, 1996 VS. DECEMBER 31, 1995

Net income for the six months ended December 31, 1996 (the "Current Period") was \$18.5 million, a \$10.1 million increase from net income of \$8.4 million for the six months ended December 31, 1995 (the "Prior Period"), after giving effect to an extraordinary loss of \$6.4 million (net of income tax) incurred in the Current Period. This increase was caused by the Company's significantly higher oil and gas production and increases in oil and gas sales prices.

Revenues from oil and gas sales for the Current Period were \$90.2 million, an increase of \$43.8 million, or 94%, from the Prior Period. Gas production increased to 30.1 Bcf, an increase of 7.1 Bcf, or 31%, compared to the Prior Period. Oil production increased to 1,116 MBbls, an increase of 422 MBbls, or 61%, compared to the Prior Period. In the Current Period the Company realized an average gas price of \$2.18 per Mcf, net of hedging losses of \$5.6 million. This was an increase of \$0.67 per Mcf, or 44%, as compared to the \$1.51 per Mcf realized in the Prior Period. The Company realized an average oil price of \$21.88 per Bbl, net of hedging losses of \$1.5 million. This was an increase of \$4.92 per Bbl, or 29%, compared to the \$16.96 per Bbl realized in the Prior Period.

Revenues from the Company's oil and gas marketing operations were \$30.0 million in the Current Period compared to \$3.8 million in the Prior Period, which included only one month of operations. Oil and gas marketing expenses were \$29.5 million in the Current Period, resulting in a gross profit margin of \$0.5 million.

Production expenses and taxes increased to \$5.9 million in the Current Period, an increase of \$2.2 million, or 59%, from \$3.7 million incurred in the Prior Period. This increase was the result of a significant increase in oil and gas production volumes during the Current Period, higher oil and gas prices which increase severance taxes, and slightly higher lifting costs per unit of production. On an Mcfe basis, production expenses and taxes were \$0.16 per Mcfe in the Current Period compared to \$0.14 in the Prior Period. The Company expects that production expenses will continue to increase in fiscal 1997 because of the Company's expansion of drilling efforts into the Louisiana Trend and the Williston Basin, both of which are oil prone areas with significant associated water production which results in higher operating costs than gas prone areas. The Company expects that production taxes will trend higher during fiscal 1997 due to higher taxes resulting from higher oil and gas prices, and because severance tax exemptions will be more limited in the Louisiana Trend compared to existing exemptions in the Giddings Field.

DD&A of oil and gas properties in the Current Period was \$36.2 million, an increase of \$14.0 million, or 63%, from \$22.2 million expensed in the Prior Period. The increase in DD&A expense is the result of a 9.7 Bcfe increase in production volumes and an increase in the DD&A rate per Mcfe. The average DD&A rate per Mcfe was \$0.99 in the Current Period as compared to \$0.82 in the Prior Period. The Company believes the DD&A rate will continue to trend higher in fiscal 1997 based on higher projected finding costs for wells drilled in the Louisiana Trend which will represent a significant portion of the Company's activities.

Depreciation and amortization of other assets increased to \$1.8 in the Current Period, a \$0.4 million, or 29%, increase from the Prior Period. This increase is the result of higher amortization expense related to debt issuance costs, and higher depreciation related to the Company's acquisition of additional buildings and equipment in its Oklahoma City headquarters complex to support the Company's growth.

General and administrative expenses increased to \$3.7 million during the Current Period, a \$1.8 million, or 95%, increase from the Prior Period.

This increase is the result of the continued growth of the Company. General and administrative expenses were \$0.10 per Mcfe in the Current Period, compared to \$0.07 per Mcfe in the Prior Period. The Company capitalized \$1.1 million and \$0.4 million of payroll and other internal costs directly related to oil and gas exploration and development activities, net of partner reimbursements, in the Current Period and Prior Period, respectively.

Interest expense decreased to \$6.2 million in the Current Period from \$6.5 million in the Prior Period. This decrease occurred despite an increase in total interest costs as a result of higher average long-term debt levels in the Current Period compared to the Prior Period. However, the increase was more than offset by the amount of interest capitalized by the Company in the Current Period. During the Current Period the Company capitalized \$7.6 million of interest costs representing the estimated costs to carry its unevaluated leasehold inventory, compared to \$1.9 million in the Prior Period.

Income tax expense increased to \$14.3 million in the Current Period (before giving effect to the income tax benefit applicable to the extraordinary item) from \$4.6 in the Prior Period. The Company's estimated effective income tax rate was 36.5% for the Current Period, compared to 35.5% for the Prior Period. The Company estimates its effective rate based on anticipated levels of income for the year, estimated production in excess of that allowed in computing statutory depletion for tax purposes, the interplay between state location of production revenue and the related state income tax, and other factors. The provision for income tax expense is deferred because the Company is not currently a cash income taxpayer. The Company has significant federal tax net operating loss carryforwards generated from the intangible drilling cost deduction for income tax purposes associated with the Company's drilling activities which are available to offset regular taxable income in the future.

RISK MANAGEMENT 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. Results from hedging transactions are reflected in oil and gas sales to the extent related to the Company's oil and gas production. The Company has not entered into hedging transactions unrelated to the Company's oil and gas production.

The Company has the following oil swap arrangements for periods after the Current Quarter:

Month	Monthly Volume(Bbls)	NYMEX-Index Strike Price (per Bbl)
January 1997	31,000	\$20.01
January 1997	62,000	\$23.27
February 1997	28,000	\$19.72
February 1997	56,000	\$22.74
March 1997	31,000	\$19.46
April 1997	30,000	\$19.22
May 1997	31,000	\$18.97
June 1997	30,000	\$18.79
July 1997	31,000	\$18.60
August 1997	31,000	\$18.43
September 1997	30,000	\$18.30
October 1997	31,000	\$18.19
November 1997	30,000	\$18.13
December 1997	31,000	\$18.08

The Company has entered into oil swap arrangements to cancel the effect of the swaps for the months of August through December at an average price of \$22.10 per Bbl.

The Company has the following gas swap arrangements for periods after the Current Quarter:

Months	Monthly Volume (MMBtu)	Houston Ship Channel Index Strike Price (per MMBtu)
--------	------------------------	---

March 1997	620,000	\$2.222
April 1997	600,000	\$2.022
May 1997	620,000	\$1.937

The Company has the following gas floor arrangements for periods after the Current Quarter:

Months	Monthly Volume(MMBtu)	Houston Ship Channel Index Strike Price (per MMBtu)
-----	-----	-----
January 1997	620,000	\$2.260
February 1997	560,000	\$2.155

Gains or losses on the crude oil and natural gas hedging transactions are recognized as price adjustments in the month of related production. The Company estimates that had all of the crude oil and natural gas swap agreements in effect for production periods beginning January 1, 1997 terminated on January 28, 1997, based on the closing prices for NYMEX futures contracts as of that date, the Company would have paid the counterparty approximately \$1.8 million, which would have represented the "fair value" at that date. These agreements were not terminated.

CAPITAL RESOURCES AND LIQUIDITY

During the Current Quarter the Company completed an offering of 8,972,000 shares of Common Stock at a price of \$33.63 per share resulting in net proceeds to the Company of approximately \$288.1 million. The Company used approximately \$55.0 million to retire through covenant defeasance the Company's \$47.5 million 12% Senior Notes, including accrued but unpaid interest through the date of defeasance of \$1.3 million. The Company used \$50 million to repay all amounts outstanding under its revolving bank credit facility. The balance of the net proceeds has been and will be used to fund exploration and development capital expenditures and for general corporate purposes.

As of December 31, 1996, the Company had working capital of \$123.2 million. Additionally, the Company had credit availability of \$68 million under its \$125 million revolving credit facility, with no amounts outstanding. The Company has estimated that its capital expenditures for fiscal 1997 will be approximately \$360 million, including approximately \$265 million for drilling, completion and production expenditures, \$30 million for pipeline and gathering facilities, and the balance for acreage acquisition, seismic programs and general corporate purposes. The capital expenditure budget is largely discretionary, and can be adjusted by the Company based on operating results or other factors. The Company believes it has sufficient capital resources, including expected cash flow from operations, to fund its capital program for the foreseeable future.

During the Current Quarter, and as a result of its Common Stock offering and subsequent reduction of debt levels, the Company received a senior debt credit rating increase from Standard & Poor's Rating Services to BB. Additionally, the Company has been placed on Credit Watch with positive implications by Moody's Investors Service, which has currently rated the Company's senior debt as Ba3. The Company's long-term debt to total book capitalization had been reduced to approximately 32% as of December 31, 1996.

The Company is negotiating with its commercial bank group to obtain a \$100 million unsecured credit facility with the Company as the sole direct borrower. This would replace its existing \$125 million secured credit facility under which a subsidiary of the Company is the borrower and the Company is the guarantor. While the successful negotiation of this facility is not assured, the Company believes the facility will be put in place during the third fiscal quarter with financial terms substantially similar to the existing revolving credit facility.

The Company's cash provided by operating activities decreased to \$42 million during the Current Period, compared to \$47 million during the Prior Period. The decrease of \$5 million is the result of additional investments in short-term marketable securities during the Current Period partially offset by increases in net income, adjusted for non-cash charges (such as DD&A and deferred income taxes), and cash provided by changes in current assets and current liabilities between the two periods.

Cash used in investing activities increased to \$184 million in the Current Period, up from \$89 million in the Prior Period. The \$95 million increase is a result of the Company's increased drilling activity and increased investment in leasehold during the Current Period.

Cash provided by financing activities was \$231 million during the Current Period, as compared to consolidated cash provided by financing activities of \$15 million during the Prior Period. The increase resulted primarily

from the Company's issuance of Common Stock reduced by \$54 million for the defeasance of the Company's \$47.5 million 12% Senior Notes and \$50 million for the repayment of the Company's revolving credit facility.

LEGAL PROCEEDINGS

On October 15, 1996, Union Pacific Resources Company ("UPRC") filed suit against the Company alleging patent infringement and tortious interference with contracts regarding confidentiality and proprietary information of UPRC. UPRC is seeking injunctive relief and damages in an unspecified amount, including actual, enhanced, consequential and punitive damages. The Company believes it has meritorious defenses to the allegations, including its belief that the subject patent is invalid. Given the subject of the claims, the Company is unable to predict the outcome of the matter or estimate a range of financial exposure.

FORWARD LOOKING STATEMENTS

All statements other than statements of historical fact contained in this Form 10-Q, including statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements. When used herein, the words "budget", "budgeted", "anticipate", "expects", "believes", "seeks", "goals", "intends", or "projects" and similar expressions are intended to identify forward-looking statements. It is important to note that the Company's actual results could differ materially from those projected by such forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Factors that could cause the Company's results to differ materially from the results discussed in such 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. All forward-looking statements in this document are expressly qualified in their entirety by the cautionary statements in this paragraph.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to this item in the Company's quarterly report on Form 10-Q for the three months ended September 30, 1996 for a description of a pending legal proceeding.

ITEM 2. CHANGES IN SECURITIES

On December 31, 1996, the Company changed its state of incorporation from Delaware to Oklahoma by the merger of Chesapeake Energy Corporation, a Delaware corporation, with and into its newly formed wholly-owned subsidiary, Chesapeake Oklahoma Corporation. The surviving corporation changed its name to Chesapeake Energy Corporation. Each outstanding share of Common Stock, par value \$.10, of the merged Delaware corporation was converted into one share of Common Stock, par value \$.01, of the surviving corporation. As a result of the merger, the surviving corporation succeeded to all of the assets and is responsible for all of the liabilities of the merged Delaware corporation. On matters of corporate governance, the rights of the Company's security holders are now governed by Oklahoma law, which is similar to the corporate law of Delaware.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

- - Not applicable

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

The Company's annual meeting of shareholders was held on December 13, 1996. In addition to electing two directors, shareholders voted to change the Company's state of incorporation from Delaware to Oklahoma, which included merging with and into Chesapeake Oklahoma Corporation, the Company's wholly-owned subsidiary, and increasing the Company's authorized capital stock to 100,000,000 shares of common stock, par value \$.01 per share, and 10,000,000 shares of preferred stock, par value \$.01 per share.

The shareholders also approved amendments to the Company's 1992 Nonstatutory Stock Option Plan and its 1994 Stock Option Plan and adopted the Company's 1996 Stock Option Plan.

In the election of directors, Aubrey K. McClendon received 55,530,182 votes for election, and 770 shares withheld from voting. Shannon T. Self received 55,011,352 votes for election, and 541,016 shares withheld from voting. The

proposal to change the Company's state of incorporation from Delaware to Oklahoma was approved by a vote of 49,618,962 shares for, representing 82% of the outstanding shares of common stock; 3,326,750 shares voted against the proposal, 22,238 shares abstained from voting and 2,584,418 shares were broker non-votes. The proposal to approve amendments to the Company's 1992 Nonstatutory Stock Option Plan and its 1994 Stock Option Plan and to adopt the Company's 1996 Stock Option Plan was approved by a vote of 38,931,478 shares for, which represented 65% of the outstanding common stock; 13,782,600 shares voted against the proposal, 35,100 shares abstained from voting and 2,803,190 shares were broker non-votes.

ITEM 5. OTHER INFORMATION

- - Not applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

The following exhibits are filed as a part of this report:

Exhibit No.

- - - - -

- | | |
|---------|--|
| 3.1 | Registrant's Certificate of Incorporation. |
| 3.2 | Registrant's Bylaws. Incorporated herein by reference to Exhibit 3.2 to Registrant's registration statement on Form 8-B. |
| 10.1.2* | Registrant's 1992 Nonstatutory Stock Option Plan, as amended. |
| 10.1.3* | Registrant's 1994 Stock Option Plan, as amended. |
| 10.1.4* | Registrant's 1996 Stock Option Plan. Incorporated herein by reference to Registrant's Proxy Statement for its 1996 Annual Meeting of Shareholders. |
| 11 | Statement regarding computation of earnings per common share |
| 27 | Financial Data Schedule |

* Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements 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
(Registrant)

February 14, 1997
Date

AUBREY K. MCCLENDON
Aubrey K. McClendon
Chairman and
Chief Executive Officer

February 14, 1997
Date

MARCUS C. ROWLAND
Marcus C. Rowland
Vice President and
Chief Financial Officer

INDEX TO EXHIBITS

Exhibit No. -----	Description -----	Method of Filing -----
3.1	Registrant's Certificate of Incorporation.	Filed herewith electronically
3.2	Registrant's Bylaws.	Incorporated herein by reference to Exhibit 3.2 to Registrant's registration statement on Form 8-B.
10.1.2	Registrant's 1992 Nonstatutory Stock Option Plan, as amended.	Filed herewith electronically
10.1.3	Registrant's 1994 Stock Option Plan, as amended.	Filed herewith electronically
10.1.4	Registrant's 1996 Stock Option Plan	Incorporated herein by reference to Registrant's Proxy Statement for its 1996 Annual Meeting of Shareholders.
11	Statement regarding computation of earnings per common share	Filed herewith electronically
27	Financial Data Schedule	Filed herewith electronically

OFFICE OF THE SECRETARY OF STATE

STATE OF OKLAHOMA

CERTIFICATE OF INCORPORATION

WHEREAS, the Certificate of Incorporation of,

CHESAPEAKE OKLAHOMA CORPORATION

has been filed in the office of the Secretary of State of the State of Oklahoma.

NOW, THEREFORE, I, the undersigned, Secretary of State of the State of Oklahoma, by virtue of the powers vested in me by law, do hereby issue this certificate evidencing such filing.

IN TESTIMONY WHEREOF, I hereunto set my hand and cause to be affixed the Great Seal of the State of Oklahoma.

[OKLAHOMA STATE SEAL]

Filed in the City of Oklahoma City
this 19th day of November, 1996.

TOM COLE
Tom Cole, Secretary of State

BETH N. GARNER
Beth N. Garner

CERTIFICATE OF INCORPORATION
OF
CHESAPEAKE OKLAHOMA CORPORATION

ARTICLE I

Name

The name of the Corporation is:

CHESAPEAKE OKLAHOMA CORPORATION

ARTICLE II

Registered Office and Agent

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

ARTICLE III

Purposes

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

ARTICLE IV

Capital Stock

The total number of shares of capital stock which the Corporation shall have authority to issue is One Hundred Ten Million (110,000,000) shares, consisting of Ten Million (10,000,000) shares of Preferred Stock, par value \$0.01 per share

and One Hundred Million (100,000,000) shares of Common Stock, par value \$0.01 per share. The preferences, qualifications, limitations, restrictions and the special or relative rights in respect of the shares of each class are as follows:

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

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

- A. The number of shares constituting a series, the distinctive designation of a series and the stated value of the series, if different from the par value;
- B. Whether the shares of a series are entitled to any fixed or determinable dividends, the dividend rate (if any) on the shares, whether the dividends are cumulative and the relative rights of priority of dividends on shares of that series;
- C. Whether a series has voting rights in addition to the voting rights provided by law and the terms and conditions of such voting rights;
- D. Whether a series will have or receive conversion or exchange privileges and the terms and conditions of such conversion or exchange privileges;
- E. Whether or not the shares of a series are redeemable and the terms and conditions of such redemption, including, without limitation, the manner of selecting shares for redemption if less than all shares are to be redeemed, the date or dates on or after which the shares in the series will be redeemable and the amount payable in case of redemption;
- F. Whether a series will have a sinking fund for the redemption or purchase of the shares in the series and the terms and the amount of such sinking fund;
- G. The right of a series to the benefit of conditions and restrictions on the creation of indebtedness of the Corporation or any subsidiary, on the issuance of any additional capital stock (including additional shares of such series or any other series), on the payment of dividends or the making of other distributions on any outstanding stock of the Corporation and the purchase, redemption or other acquisition by the Corporation, or any subsidiary, of any outstanding stock of the Corporation;
- H. The rights of a series in the event of voluntary or involuntary liquidation, dissolution or winding up of the corporation and the relative rights of priority of payment of a series; and
- I. Any other relative, participating, optional or other special rights, qualifications, limitations or restrictions of such series.

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

If upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation the assets available for distribution to holders of shares of Preferred Stock of all series shall be insufficient to pay such holders the full

preferential amount to which they are entitled, then such assets shall be distributed ratably among the shares of all series in accordance with the respective preferential amounts (including unpaid cumulative dividends, if any) payable with respect thereto.

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

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

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

ARTICLE V

Limitation of Director Liability

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

ARTICLE VI

Certain Stock Purchases

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

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

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

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

as determined by the Board in good faith.

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

Section 2. Vote Required for Certain Stock Purchases.

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

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

Section 3. Powers of Continuing Directors.

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

ARTICLE VII

Board of Directors

Section 1. Management by Board of Directors.

The business and affairs of the Corporation shall be under the direction of the Board of Directors.

Section 2. Number of Directors.

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

Section 3. Classes of Directors; Election by

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

directors then in office, even if less than a quorum, or by a sole remaining director. Any director elected to fill a vacancy shall hold office for a term that shall coincide with the term of the class to which such director shall have been elected. No election of directors need be by written ballot.

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

ARTICLE VIII

Indemnity

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

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

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

Section 4. Insurance. The Corporation may purchase (upon resolution duly adopted by the board of directors) and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director,

officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability.

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

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

ARTICLE IX

Amendments; Bylaws; Control Shares Act; Written Consent

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

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

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

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

ARTICLE X

Incorporator

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

W. Chris Coleman	Tenth Floor Two Leadership Square Oklahoma City, OK 73102
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I, the undersigned, for the purpose of forming a corpo-

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

W. CHRIS COLEMAN
W. Chris Coleman

CONSENT TO SIMILAR NAME

TO THE SECRETARY OF STATE OF THE STATE OF OKLAHOMA;

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

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

CHESAPEAKE LIMITED PARTNERSHIP

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

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

CHESAPEAKE OKLAHOMA CORPORATION

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

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

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

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

CHESAPEAKE OPERATING, INC., General
Partner

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

ATTEST:

JANICE A. DOBBS
Janice A. Dobbs, Secretary

OFFICE OF THE SECRETARY OF STATE

STATE OF OKLAHOMA

STATE SEAL OF OKLAHOMA

CERTIFICATE OF MERGER

WHEREAS, CHESAPEAKE ENERGY CORPORATION formerly: CHESAPEAKE OKLAHOMA CORPORATION, a corporation organized under the laws of the State of OKLAHOMA, has filed in the office of the Secretary of State duly authenticated evidence of a merger whereby said corporation is the surviving entity, as provided by the laws of the State of Oklahoma.

NOW THEREFORE, I, the undersigned Secretary of State of Oklahoma, by virtue of the Powers vested in me by law, do hereby issue this Certificate evidencing such merger.

IN TESTIMONY WHEREOF, I hereunto set my hand and cause to be affixed the Great Seal of the State of Oklahoma.

EFFECTIVE DATE: DECEMBER 31, 1996

Filed in the City of Oklahoma City this 23rd day of December, 1996.

TOM COLE
Tom Cole, Secretary of State

STATE SEAL OF OKLAHOMA

BETH GARNER
Beth Garner

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FURTHER RESOLVED, that the officers of the Corporation

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

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

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

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

CHESAPEAKE ENERGY CORPORATION

THOMAS L. WARD
Thomas L. Ward
President

ATTEST:

JANICE DOBBS
Janice Dobbs
Secretary
[Seal]

CHESAPEAKE ENERGY CORPORATION
1992 NONSTATUTORY STOCK OPTION PLAN

As amended and restated through October 15, 1996
Reflects stock splits through December 31, 1996

CHESAPEAKE ENERGY CORPORATION
1992 NONSTATUTORY STOCK OPTION PLAN
As amended and restated through October 15, 1996
Reflects stock splits through December 31, 1996

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 \$0.01 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 3,132,000 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 Limited Transferability of Options. The Committee may, in its discretion, authorize all or a portion of the Options to be granted to an Optionee who is a Director to be on terms which permit transfer by such Optionee to (i) the ex-spouse of the Optionee pursuant to the terms of a domestic relations order, (ii) the spouse, children or grandchildren of the Optionee ("Immediate Family Members"), (iii) a trust or trusts for the exclusive benefit of such immediate Family Members, or (iv) a partnership in which such Immediate Family Members are the only partners. In addition (x) there may be no consideration for any such transfer, (y) the stock option agreement pursuant to which such Options are granted must be approved by the Committee, and must expressly provide for transferability in a manner consistent with this paragraph, and (z) subsequent transfers of transferred Options shall be prohibited except those in accordance with paragraph 6.8 hereof. Following transfer, any such Options shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of paragraphs 6.5 and 6.11 hereof the term "Optionee" shall be deemed to refer to the transferee. The events of termination of employment of paragraphs 6.5 and 6.11 hereof shall continue to be applied with respect to the original Option, following which the Options shall be exercisable by the transferee only to the extent, and for the periods specified in paragraphs 6.5 and 6.11 hereof. No transfer pursuant to this paragraph 6.7 shall be effective to bind the Company unless the Company shall have been furnished with written notice of such transfer together with such other documents regarding the transfer as the Committee shall request.

6.8 Transfers By Will or the Laws of Descent and Distribution. Options shall be transferable by will or the laws of descent and distribution; however, no such transfer of an Option by the Optionee 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 10,000 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.

CHESAPEAKE ENERGY CORPORATION

1994 STOCK OPTION PLAN

as Amended Through October 15, 1996
Restated to Reflect Stock Splits
Through December 31, 1996

CHESAPEAKE ENERGY CORPORATION
1994 STOCK OPTION PLAN

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CHESAPEAKE ENERGY CORPORATION
1994 STOCK OPTION PLAN

ARTICLE I

General Provisions

1.1 Purpose. The purpose of CHESAPEAKE ENERGY CORPORATION 1994 STOCK OPTION PLAN (the "Plan") shall be to attract, retain and motivate employees (the "Participants") of Chesapeake Energy Corporation (the "Company") and of any parent or subsidiary of the Company by way of granting (i) nonqualified stock options ("Stock Options") and (ii) incentive stock options ("ISO Options"). For purposes of this Plan, Stock Options and ISO Options are sometimes collectively herein called "Options." The ISO Options to be granted under the Plan are intended to be qualified pursuant to Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), and the Stock Options to be granted are intended to be "nonqualified stock options" as described in Sections 83 and 421 of the Code. Further, under the Plan, the terms "parent" and "subsidiary" shall have the same meaning as set forth in Subsections (e), (f) and (g) of Section 424 of the Code unless the context clearly indicates to the contrary.

1.2 General. The terms and provisions of this Article I shall be applicable to both Stock Options and ISO Options unless the context clearly indicates to the contrary.

1.3 Administration of the Plan.

(a) Deemed Separate Plans. For purposes of administration, the Plan shall be deemed to consist of two separate stock option plans, a "Non-Director Plan" which is limited to Participants who are employees of the Company or any parent or subsidiary of the Company but are not directors of the Company ("Non-Director Participants") and a "Director Plan" which is limited to Participants who are employees of the Company or any parent or subsidiary of the Company and also directors of the Company ("Director Participants"). Except for administration and the category of Participants eligible to receive Options, the terms of the Non-Director Plan and the Director Plan are identical.

(b) Committee Membership. The Non-Director Plan shall be administered by a committee, designated the Regular Option Committee (the "Regular Committee"), of two or more directors of the Company, and the Director Plan shall be administered by a committee, designated the Special Option Committee (the "Special Committee"), of two or more directors of the Company. It is intended that, unless otherwise determined by the Board of Directors of the Company (the "Board"), the members of the Special Committee shall be directors who are not Director Participants. Accordingly, with respect to all decisions relating to Non-Director Participants, including the grant of Options, the term "Committee" shall apply only to the Regular Committee; and, with respect to all decisions relating to Director Participants, including the grant of Options, the term "Committee" shall apply only to the Special Committee.

(c) Appointment. The members of the Committee shall be appointed by the Board and shall serve at the pleasure of the Board.

(d) Authority of Committee. The Committee shall have the power where consistent with the general purpose and intent of the Plan to (i) modify the requirements of the Plan to conform with the law or to meet special circumstances not anticipated or covered in the Plan, (ii) suspend or discontinue the Plan, (iii) establish policies and (iv) adopt rules and regulations and prescribe forms for carrying out the purposes and provisions of the Plan including the form of any stock option agreement between the Company and any Participant with respect to any Option granted under the Plan (a "Stock Option Agreement"). Unless otherwise provided in the Plan, the Committee shall have the authority to interpret and construe the Plan, and determine all questions arising under the Plan and any Stock Option Agreement made pursuant to the Plan. Any interpretation, decision or determination made by the Committee shall be final, binding and conclusive. A majority of the Committee shall constitute a quorum, and an act of the majority of the members present at any meeting at which a quorum is present shall be the act of the Committee.

1.4 Shares Subject to the Plan. Shares of stock

("Stock") covered by Stock Options and ISO Options shall consist of Four Million Eight Hundred Eighty-Six Nine Hundred Ten (4,886,910) shares of the voting common stock, par value \$.01, of the Company. Either authorized and unissued shares or treasury shares may be delivered pursuant to the Plan. If any Option for shares of Stock granted to a Participant lapses, or is otherwise terminated, the Committee may grant Stock Options or ISO Options for such shares of Stock to other Participants.

1.5 Participation in the Plan. The Committee shall determine from time to time those Participants who are to be granted Stock Options and ISO Options and the number of shares of Stock covered thereby. Provided, in no event may any Participant be granted more than One Million One Hundred Twenty-Five Thousand (1,125,000) Options during any consecutive three calendar year period under the Plan.

1.6 Determination of Fair Market Value. As used in the Plan, "fair market value" shall have the following meaning: (i) if the common stock of the Company is listed for trading on one or more national securities exchanges or the Nasdaq National Market System (the "NMS"), the reported last sales price on such principal exchange or the NMS as of the granting date, or other relevant date, or if such common stock shall not have been traded on such date, the reported last sales price on such principal exchange or the NMS 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 or the NMS 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.

1.7 Grants of Options Under Stock Option Agreement. Each Stock Option or ISO 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 Participant. 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.

1.8 Amendment and Termination of the Plan. The Plan shall terminate at midnight, October 17, 2004, but prior thereto may be altered, changed, modified, amended or terminated by written amendment approved by the Board. Provided, that no action of the Board may, without the approval of the holders of a majority of the Company's securities present in person or represented by proxy at a meeting of stockholders entitled to vote thereon, increase the aggregate number of shares of Stock which may be purchased under Stock Options or ISO Options granted under the Plan; materially increase the benefits accruing to Participants under the Plan; or materially modify the requirements as to eligibility for participation in the Plan. Except as provided in this Article I, no amendment, modification or termination of the Plan shall in any manner adversely affect any Stock Option or ISO Option theretofore granted under the Plan without the consent of the affected Participant.

1.9 Effective Date. The Plan was approved by the Board on October 18, 1994, subject to approval of the holders of a majority of the Company's securities present in person or represented by proxy at a meeting of stockholders entitled to vote thereon, which meeting must occur within twelve (12) months of October 18, 1994. Hereafter, any reference to the effective date of the Plan shall mean the date of approval by the Board.

1.10 Securities Law Requirements. The Company shall have no obligation to issue any Stock hereunder unless the issuance of such shares would comply with any applicable federal or state securities laws or any other applicable law or regulations thereunder. The Company may legend any stock certificate issued hereunder to reflect any restrictions under federal or state securities laws.

1.11 Stock Certificates. Upon the exercise of any Stock

Option or ISO Option, a Participant shall be issued one or more certificates, as requested by the Participant, representing the Stock purchased pursuant to the exercised Option.

1.12 Option Exercise and Payment for Stock. To exercise an Option, a Participant shall give written notice of exercise to the person designated by the Committee at the Company's principal office. Payment in full for shares of Stock purchased under this Plan shall accompany a Participant's notice of exercise of an Option, together with payment for any applicable withholding taxes as provided in Section 1.20. Payment shall be made in cash or by check, Stock of the Company or a combination thereof, and no loan or advance shall be made by the Company for the purpose of financing, in whole or in part, the purchase of Stock unless such loan or advance has been approved by the Board. In the event that common stock of the Company is utilized as consideration for the purchase of Stock upon the exercise of a Stock Option or an ISO Option, then, such common stock shall be valued at the "fair market value," as defined in Section 1.6 of the Plan, as of the date of exercise. In addition to the foregoing procedure which may be available for the exercise of any Stock Option or ISO Option, the Participant may deliver to the Company a notice of exercise which includes, in lieu of any other payment, an irrevocable instruction to the Company to deliver the stock certificate representing the shares of Stock being purchased, issued in the name of the Participant, to a broker approved by the Company and authorized to trade in the common stock of the Company. Upon receipt of such notice, the Company shall acknowledge receipt of the executed notice of exercise and forward this 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 Stock or any portion thereof. The broker shall deliver directly to the Company that portion of the sales proceeds sufficient to cover the Option Price and withholding taxes, if any. Further, the broker may also facilitate a loan to the Participant 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 Participant delivers the notice of exercise to the Company, together with payment for the shares of Stock being purchased as provided in this Section 1.12 and payment for any applicable withholding taxes as provided in Section 1.20, shall be the "date of exercise." If a notice of exercise and payment are delivered at different times, the date of exercise shall be the date the Company first has in its possession both the notice and full payment as provided herein. The Committee may adopt such other procedures which it desires for the payment of the purchase price upon the exercise of a Stock Option or ISO Option which are not inconsistent with the applicable provisions of the Code which relate to Stock Options and ISO Options. In addition to the foregoing, the Committee may, in its sole discretion, permit payment of the exercise price of Stock Options granted under the Plan by the Participant directing the Company to withhold from the shares of Stock to be delivered to the Participant upon exercise of the Stock Option shares of Stock having a "fair market value" as defined in Section 1.6 of the Plan on the date of payment equal to the amount of the exercise price.

1.13 Stock Options and ISO Options Granted Separately. Since the Committee is authorized to grant Stock Options and ISO Options to Participants, the grants thereof and Stock Option Agreements relating thereto will be made separately and totally independent of each other. Except as it relates to the total number of shares of Stock which may be issued under the Plan, the grant or exercise of a Stock Option shall in no manner affect the grant and exercise of any ISO Options. Similarly, the grant and exercise of an ISO Option shall in no manner affect the grant and exercise of any Stock Options.

1.14 Use of Proceeds. The proceeds received by the Company from the sale of Stock pursuant to the exercise of Options granted under the Plan shall be added to the Company's general funds and used for general corporate purposes.

1.15 Non-Transferability of Options. Except as otherwise herein provided, any Option granted 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 Participant, only by the Participant. More particularly (but without limiting the generality of the foregoing), the Option shall not be assigned, transferred (except as provided above), pledged or hypothecated in any way whatsoever, 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.

1.16 Additional Documents on Death of Participant. No transfer of an Option by the Participant 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 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 to the Option of the terms and conditions of such Option.

1.17 Changes in Employment. So long as the Participant shall continue to be an employee of the Company or its parent or one of its subsidiaries, any Option granted to him or her shall not be affected by any change of duties or position. Nothing in the Plan or in any Stock Option Agreement which relates to the Plan shall confer upon any Participant any right to continue in the employ of the Company or its parent or any of its subsidiaries, or interfere in any way with the right of the Company or its parent or any of its subsidiaries to terminate the Participant's employment at any time.

1.18 Stockholder Rights. No Participant shall have any rights as a stockholder with respect to any shares of Stock subject to an Option prior to the purchase of such shares of Stock by exercise of the Option.

1.19 Adjustments Upon Changes in Capitalization. The aggregate number of shares of Stock available for Options to be granted under the Plan, the Option Price and the ISO Price and the total number of shares of Stock which may be purchased by a Participant on exercise of a Stock Option and an ISO Option shall be appropriately adjusted or modified by the Committee to reflect any recapitalization, stock split, merger, consolidation, reorganization, combination, liquidation, stock dividend or similar transaction involving the Company. Provided, any such adjustment shall be made in such a manner as to not constitute a modification as defined in Section 424(h) of the Code.

1.20 Payment of Withholding Taxes. No exercise of any Option may be effected until the Company receives full payment for the Stock purchased, as provided in Section 1.12, and for any required state and federal withholding taxes. Payment for withholding taxes shall be made in cash or by check unless the Committee otherwise provides. The Committee may permit payment to be made in the form of common stock of the Company either by the Participant surrendering, or the Company retaining from the shares of Stock to be issued upon exercise of the Stock Option, that number of shares of Stock (based on fair market value) that would be necessary to satisfy the requirements for withholding any amounts of taxes due upon the exercise of such Stock Option. The Committee shall also have the discretion to require that the Company retain shares of Stock issuable upon the exercise of a Stock Option to satisfy any Participant's tax withholding obligations. For the purpose of calculating the fair market value of shares surrendered or retained to pay withholding taxes, the relevant date shall be the date of exercise. In the event a Participant uses the "cashless" exercise/same-day sale procedure set forth in Section 1.12 hereof to pay withholding taxes, the actual sale price of shares sold to satisfy payment shall be used to determine the amount of withholding taxes payable. Nothing herein, however, shall be construed as requiring payment of withholding taxes at the time of exercise if payment of taxes is deferred pursuant to any provision of the Code, and actions satisfactory to the Company are taken which are designed to reasonably insure payment of withholding taxes when due. Each Stock Option Agreement shall provide that, in the event a Participant disposes of any Stock acquired by the exercise of an ISO Option within the two-year period following grant, or within the one-year period following exercise, of the ISO Option, the Participant shall so inform the Company. In such event, the Company shall have the right to require the Participant to remit to the Company an amount sufficient to satisfy all federal, state and local withholding tax requirements.

1.21 Assumption of Outstanding Options. To the extent permitted by the then applicable provisions of the Code, any successor to the Company succeeding to, or assigned the business of, the Company as the result of or in connection with a merger, consolidation, combination, reorganization, liquidation or other similar transaction may assume Options outstanding under the Plan or issue new Options in place of outstanding Options under the Plan

with such assumption to be made on a fair and equivalent basis in accordance with the applicable provisions of Section 424(a) of the Code; provided, in no event shall such assumption result in a modification of any Option as defined in Section 424(h) of the Code.

1.22 Retirement and Disability. For the purpose of this Plan, "Retirement" shall mean the voluntary termination of employment of a Participant with the Company, its parent or any of its subsidiaries after attaining at least 55 years of age, and "Disability" shall mean termination of employment of a Participant after incurring a "disability" as defined in Section 22(e)(3) of the Code.

ARTICLE II

Stock Options

2.1 General Terms. With respect to Stock Options granted on or after the effective date of the Plan, the following provisions of this Article II shall apply. The Stock Options granted under this Article II are intended to be "nonqualified stock options" as described in Sections 83 and 421 of the Code.

2.2 Grant and Terms for Stock Options. Stock Options shall be granted on the following terms and conditions. No Stock Option shall be exercisable more than ten (10) years from the date of grant. Subject to such limitations, the Committee shall have the discretion to fix the period ("Option Period") during which Stock Options may be exercised. At all times during the period commencing with the date a Stock Option is granted to a Participant and ending on the earlier of the expiration of the Option Period applicable to such Stock Option or the date which is three (3) months prior to the date the Stock Option is exercised by such Participant, such Participant must be an employee of either (i) the Company, (ii) a parent or a subsidiary of the Company, or (iii) a successor to the Company or parent or a subsidiary of such successor issuing or assuming a Stock Option in a transaction to which Section 424(a) of the Code applies. Provided, in the case of a Participant who has incurred a Disability, the aforesaid three (3) month period shall mean a one (1) year period. Provided further, in the event a Participant's employment is terminated by reason of death, the Participant's personal representative may exercise any unexercised Stock Option granted to the Participant under the Plan at any time within three (3) years after the Participant's death but in any event not after the expiration of the Option Period applicable to such Stock Option.

(a) Option Price. The option price ("Option Price") for shares of Stock subject to any Stock Option shall be determined by the Committee, but in no event shall the Option Price be less than the par value of the Stock.

(b) Acceleration of Otherwise Unexercisable Stock Options on Retirement, Death, Disability or Other Special Circumstances. The Committee, in its sole discretion, may permit (i) a Participant who terminates employment due to Retirement, (ii) a Participant who terminates employment due to a Disability, (iii) the personal representative of a deceased Participant, or (iv) any other Participant who terminates employment upon the occurrence of special circumstances (as determined by the Committee) to purchase (within three (3) months of such date of termination of employment or one (1) year in the case of a Participant suffering a Disability or three (3) years in the case of a deceased Participant) all or any part of the shares subject to any Stock Option on the date of the Participant's Retirement, Disability, death, or as the Committee otherwise so determines, notwithstanding that all installments, if any, with respect to such Stock Option, had not yet accrued on such date.

(c) Number of Stock Options Granted. Participants may be granted more than one Stock Option. In making any such determination, the Committee shall obtain the advice and recommendation of the officers of the Company, its parent, or a subsidiary of the Company who have supervisory authority over such Participants. The granting of a Stock Option under the Plan shall not affect any outstanding Stock Option previously granted to a Participant under the Plan (or any other plans of the Company).

ARTICLE III

ISO Options

3.1 General Terms. With respect to ISO Options granted on or after the effective date of the Plan, the following provi-

sions in this Article III shall apply to the exclusion of any inconsistent provision in any other Article in this Plan since the ISO Options to be granted under the Plan are intended to qualify as "incentive stock options" as defined in Section 422 of the Code.

3.2 Grant and Terms of ISO Options. No ISO Options shall be granted to any person who is not eligible to receive "incentive stock options" as provided in Section 422 of the Code. No ISO Options shall be granted to any Participant if, immediately before the grant of an ISO Option, such employee owns more than 10% of the total combined voting power of all classes of stock of the Company, its parent or its subsidiaries (as determined in accordance with the stock attribution rules contained in Sections 422 and 424(d) of the Code). Provided, the preceding sentence shall not apply if, at the time the ISO Option is granted, the ISO Price (as defined below) is at least 110% of the "fair market value" of the Stock subject to the ISO Option, and such ISO Option by its terms is exercisable no more than five (5) years from the date such ISO Option is granted.

(a) ISO Option Price. The option price for shares of Stock subject to an ISO Option ("ISO Price") shall be determined by the Committee, but in no event shall such ISO Price be less than the greater of (a) the "fair market value" of the Stock on the date of grant or (b) the par value of the Stock.

(b) Annual ISO Option Limitation. With respect to ISO Options granted, in no event during any calendar year will the aggregate "fair market value" (determined as of the time the ISO Option is granted) of the Stock for which the Participant may first have the right to exercise under any "incentive stock options" granted under the Plan and all other plans qualified under Section 422 of the Code which are sponsored by the Company, its parent and any subsidiary exceed \$100,000. ISO Options which are in excess of the applicable \$100,000 limitation will be recharacterized as Stock Options as provided under Article V herein.

(c) Terms of ISO Options. ISO Options shall be granted on the following terms and conditions: No ISO Option shall be exercisable more than ten (10) years from the date of grant. Subject to such limitation, the Committee shall have the discretion to fix the period (the "ISO Period") during which any ISO Option may be exercised. ISO Options granted shall not be transferable except by will or by laws of descent and distribution. At all times during the period commencing with the date an ISO Option is granted to a Participant and ending on the earlier of the expiration of the ISO Period applicable to such ISO Options or the date which is three (3) months prior to the date the ISO Option is exercised by such Participant, such Participant must be an employee of either (i) the Company, (ii) a parent or a subsidiary of the Company, or (iii) a successor to the Company or a parent or a subsidiary of such successor issuing or assuming an ISO Option in a transaction to which Section 424(a) of the Code applies. Provided, in the case of a Participant who incurs a Disability, the aforesaid three (3) month period shall mean a one (1) year period. Provided further, in the event a Participant's employment is terminated by reason of death, the Participant's personal representative may exercise any unexercised ISO Option granted to the Participant under the Plan at any time within three (3) years after the Participant's death but in any event not after the expiration of the ISO Period applicable to such ISO Option.

(d) Acceleration of Otherwise Unexercisable ISO Options on Retirement, Death, Disability or Other Special Circumstances. The Committee, in its sole discretion, may permit (i) a Participant who terminates employment due to Retirement, (ii) a Participant who terminates employment due to a Disability, (iii) the personal representative of a deceased Participant, or (iv) any other Participant who terminates employment upon the occurrence of special circumstances (as determined by the Committee) to purchase (within three (3) months of such date of termination of employment or one (1) year in the case of a Participant suffering a Disability or three (3) years in the case of a deceased Participant) all or any part of the shares subject to any ISO Option on the date of the Participant's Retirement, Disability, death, or as the Committee otherwise so determines, notwithstanding that all installments, if any, had not accrued on such date.

(e) Number of ISO Options Granted. Subject to the applicable limitations contained in the Plan with respect to ISO Options, Participants may be granted more than one ISO Option. In making any such determination, the Committee shall obtain the advice and recommendation of the officers of the Company, its parent or a subsidiary of the Company who have supervisory authority over such Participants. Further, the granting of an ISO

Option under the Plan shall not affect any outstanding ISO Option previously granted to a Participant under the Plan.

ARTICLE IV

Acceleration of Options Upon Corporate Event

4.1 Acceleration of Options. Where dissolution or liquidation of the Company or any merger, consolidation, combination, reorganization or similar transaction 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 Section 4.2 hereof, each outstanding Option granted hereunder shall terminate upon the occurrence of the transaction, but the Participant shall have the right, immediately prior thereto, 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.

4.2 Procedures for Acceleration and Exercise. If the Company shall, pursuant to action by its Board, at any time propose to dissolve or liquidate or 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 Participant 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 Participant shall have the right to exercise his or her Option to purchase any or all of the Stock then subject to such Option. Each Participant, 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 Participant need not make payment for the Stock to be purchased upon exercise of such Option until five (5) days after written notice by the Company to such Participant 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 Stock 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 Section 4.2, such vesting shall be deemed annulled, and the vesting schedule set forth in the Participant's Stock Option Agreement shall be reinstated, as of the date of such abandonment.

4.3 Certain Additional Payments by the Company. The Committee may, in its sole discretion, provide in any Stock Option Agreement for certain payments by the Company in the event that acceleration of vesting of any Option under the Plan is considered a payment by the Company (a "Payment") subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties with respect to such excise tax (such excise tax, interest and penalties, collectively, the "Excise Tax"). A Stock Option Agreement may provide that the Participant shall be entitled to receive a payment (a "Gross-Up Payment") in an amount such that after payment by the Participant of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, the Participant retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

ARTICLE V

Options Not Qualifying as Incentive Stock Options

With respect to all or any portion of any Option granted under the Plan not qualifying as an "incentive stock option" under Section 422 of the Code, such Option shall be considered as a Stock Option granted under this Plan for all purposes. Further, this Plan and any ISO Options granted hereunder shall be deemed to have incorporated by reference all the provisions and requirements of Section 422 of the Code (and the Treasury Regulations issued thereunder) which are required to provide that all ISO Options granted hereunder shall be "incentive stock options" described in

Section 422 of the Code. Further, in the event that the Committee grants ISO Options under this Plan to a Participant, and, in the event that the applicable limitation contained in Section 3.2 (b) herein is exceeded, then, such ISO Options in excess of such limitation shall be treated as Stock Options under this Plan subject to the terms and provisions of the applicable Stock Option Agreement, except to the extent modified to reflect recharacterization of the ISO Options as Stock Options.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

STATEMENT OF NET INCOME PER SHARE
(in thousands, except per share)

	Three Months Ended December 31,		Six Months Ended December 31,	
	1996	1995	1996	1995
PRIMARY INCOME PER SHARE				
Computation for statement of income				
Net income per statement of income				
Income before extraordinary item	\$ 16,717	\$ 5,459	\$ 24,921	\$ 8,375
Extraordinary item	(6,443)	-	(6,443)	-
Net income	\$ 10,274	\$ 5,459	\$ 18,478	\$ 8,375
Weighted average				
Common shares outstanding	63,774	53,136	61,985	53,136
Adjustment to weighted average common shares outstanding:				
Add dilutive effect of:				
Employee Options	4,334	4,318	4,315	4,012
Weighted average common shares and common equivalent shares outstanding, as adjusted				
	68,108	57,454	66,300	57,148
Primary net income per common share:				
Income before extraordinary item	\$.25	\$.10	\$.38	\$.15
Extraordinary item	(.10)	-	(.10)	-
Net income	\$.15	\$.10	\$.28	\$.15
FULLY DILUTED INCOME PER SHARE				
Net income per statement of income				
Income before extraordinary item	\$ 16,717	\$ 5,459	\$ 24,921	\$ 8,375
Extraordinary item	(6,443)	-	(6,443)	-
Net income	\$ 10,274	\$ 5,459	\$ 18,478	\$ 8,375
Weighted average				
Common shares outstanding	63,774	53,136	61,985	53,136
Adjustment to weighted average common shares outstanding:				
Add fully dilutive effect of:				
Employee Options	4,334	4,908	4,315	4,832
Weighted average common shares and common equivalent shares outstanding, as adjusted				
	68,108	58,044	66,300	57,968
Fully diluted net income per common share:				
Income before extraordinary item	\$.25	\$.09	\$.38	\$.14
Extraordinary item	(.10)	-	(.10)	-
Net income	\$.15	\$.09	\$.28	\$.14

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM (A) BALANCE SHEET AS OF DECEMBER 31, 1996 AND STATEMENT OF INCOME FOR SIX MONTHS ENDED DECEMBER 31, 1996, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH (B) FORM 10-Q FOR THE PERIOD DECEMBER 31, 1996.

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CHESAPEAKE ENERGY CORPORATION
1,000

6-MOS	
JUN-30-1997	DEC-31-1996
	140,739
	35,317
	66,370
	198
	7,071
250,273	731,392
	132,843
	860,597
127,092	220,149
0	0
	693
	483,369
860,597	120,186
	122,707
	77,240
	83,456
	0
	0
	6,216
	83,456
	14,325
24,921	0
	(6,443)
	0
	18,478
	.28
	.28