

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM S-4  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

CHESAPEAKE ENERGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

OKLAHOMA 1311 73-1395733  
(State or Other Jurisdiction of (Primary Standard Industrial (I.R.S. Employer  
Incorporation or Organization) Classification Code Number) Identification Number)

6100 NORTH WESTERN AVENUE, OKLAHOMA CITY, OKLAHOMA 73118  
(405) 848-8000  
(Address, Including Zip Code, and Telephone Number, Including Area Code, of  
Registrant's Principal Executive Offices)

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CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER  
6100 NORTH WESTERN AVENUE  
OKLAHOMA CITY, OKLAHOMA 73118  
(405) 848-8000  
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code,  
of Agent for Service)

Copies to:

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WILLIAM S. CLARKE  
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457 NORTH HARRISON STREET  
PRINCETON, NEW JERSEY 08540  
(609) 921-3663

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC: As soon as practicable after this Registration Statement is effective and all other conditions to the transaction described in the proxy statement/prospectus included in this Registration Statement have been satisfied or waived.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [ ]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE(2)(3)
Common Stock, par value \$0.01 per share.....	4,000,000	N/A	\$27,966,091	-0-

(1) Represents the maximum number of shares of common stock of the Registrant issuable in the merger to holders of common stock of Gothic Energy Corporation, pursuant to the terms of the agreement and plan of merger.  
(2) Pursuant to Rule 457(c) and Rule 457(f)(1) under the Securities Act of 1933, and solely for the purpose of calculating the registration fee, the proposed maximum aggregate offering price is equal to (x) the estimated number of shares of Gothic common stock to be exchanged in the merger multiplied by (y) \$1.20, the average of the bid and asked prices of the Gothic common stock on September 28, 2000 on the OTC Bulletin Board.

(3) Pursuant to Rule 429(b), the registration fee for the shares registered hereby, which would otherwise be \$7,383, is offset in full by the registration fee previously paid by the Registrant on July 7, 2000 in connection with its Registration Statement on Form S-1 (File No. 333-41014).

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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GOTHIC ENERGY CORPORATION  
 TWO WARREN PLACE -- SUITE 1200  
 6120 SOUTH YALE AVENUE  
 TULSA, OKLAHOMA 74136

Dear fellow shareholder:

You are cordially invited to attend a special meeting of shareholders of Gothic Energy Corporation on [ ], 2000, at 10:00 a.m., local time, at the Doubletree Hotel at Warren Place, 6110 South Yale Avenue in Tulsa, Oklahoma. At the special meeting, we are asking for shareholder approval of a merger agreement and the transactions contemplated by that agreement, including the merger of Chesapeake Merger 2000 Corp., a wholly-owned subsidiary of Chesapeake Energy Corporation, with and into Gothic. As a result of the merger, Gothic will become a wholly-owned subsidiary of Chesapeake Energy Corporation, a New York Stock Exchange listed company. Except for those shareholders who demand appraisal rights, holders of Gothic common stock will become Chesapeake shareholders.

If the merger is completed, based on the number of shares of Gothic common stock outstanding on the date of this proxy statement/prospectus, Gothic shareholders will receive 0.1908 of a share of Chesapeake common stock for each share of Gothic common stock.

Your board of directors recommends a vote "FOR" this proposal.

Please see the section entitled "Risk Factors" beginning on page 12 of the proxy statement/prospectus for a discussion of potential risks related to the merger and to Chesapeake's business.

Gothic and Chesapeake cannot complete the merger unless Gothic's shareholders approve the merger and the merger agreement. We have scheduled a special meeting of shareholders to vote on this matter.

YOUR VOTE IS VERY IMPORTANT. Regardless of the number of shares you own, it is important that they be represented and voted at the meeting, whether or not you plan to attend. Accordingly, you are requested to exercise your vote by signing, dating and mailing the enclosed proxy in the postage prepaid return envelope provided for your convenience. Only shareholders of record of Gothic on [ ], 2000 are entitled to attend and vote at the special meeting.

This proxy statement/prospectus contains answers to frequently asked questions; it also contains a summary description of the merger and other related matters, beginning on page v, followed by a more detailed discussion of the merger and these matters. Because the answers and the summary are not, by their nature, detailed, we urge you to carefully read this proxy statement/prospectus in its entirety. You may also obtain information about the two companies from documents they have filed with the Securities and Exchange Commission.

Your interest and participation in the affairs of Gothic are sincerely appreciated.

GOTHIC ENERGY CORPORATION

Mike Paulk  
 President and Chief Executive  
 Officer

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE MERGER OR THE SHARES OF CHESAPEAKE COMMON STOCK TO BE ISSUED IN THE MERGER OR DETERMINED IF THIS PROXY STATEMENT/PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This document is also the prospectus of Chesapeake for the shares that it will issue in connection with the merger.

Chesapeake has furnished all the information in this proxy statement/prospectus concerning Chesapeake, and Gothic has furnished all the information concerning Gothic.

PROXY STATEMENT/PROSPECTUS DATED [ ], 2000 AND FIRST MAILED TO  
 SHAREHOLDERS ON OR ABOUT [ ], 2000

## GOTHIC ENERGY CORPORATION

TWO WARREN PLACE -- SUITE 1200  
6120 SOUTH YALE AVENUE  
TULSA, OKLAHOMA 74136

## NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON \_\_\_\_\_, 2000

To our shareholders:

Notice is hereby given that a Special Meeting of Shareholders of Gothic Energy Corporation will be held at the Doubletree Hotel at Warren Place, 6110 South Yale Avenue, Tulsa, Oklahoma on [ ], [ ], 2000 at 10:00 AM, for the following purposes:

1. A proposal to approve the merger of Gothic with Chesapeake Merger 2000 Corp., an Oklahoma corporation and wholly-owned subsidiary of Chesapeake Energy Corporation, pursuant to an Agreement and Plan of Merger dated September 8, 2000; and

2. To transact such other business as may properly come before the meeting, or any adjournments thereof.

Information with respect to these matters is set forth in the proxy statement/prospectus which accompanies this notice. All holders of record of shares of Gothic's common stock and preferred stock at the close of business on [ ], 2000 are entitled to notice of the special meeting. Only holders of record of Gothic common stock on such date are entitled to vote at the special meeting.

We hope that all of our shareholders who can conveniently do so will attend the special meeting. Shareholders who do not expect to be able to attend the special meeting are requested to mark, date and sign the enclosed proxy and return the same in the enclosed addressed envelope which requires no postage and is intended for your convenience.

By Order of the Board of Directors,

R. Andrew McGuire, Secretary

Tulsa, Oklahoma  
, 2000



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You may obtain documents that are referred to or that are incorporated by reference in the registration statement, without charge, by requesting them in writing or by telephone at the following addresses and telephone numbers:

IF FROM CHESAPEAKE:

-----

6100 North Western Avenue  
Oklahoma City, Oklahoma 73118  
Attn: Thomas S. Price, Jr.  
Tel: (405) 879-9257

IF FROM GOTHIC:

-----

6120 South Yale Ave., Suite 1200  
Tulsa, Oklahoma 74136  
Attn: Stephen P. Ensz  
Tel: (918) 749-5666

IF YOU WOULD LIKE TO REQUEST DOCUMENTS, PLEASE DO SO BY \_\_\_\_\_, 2000 TO  
RECEIVE THEM BEFORE THE GOTHIC SPECIAL MEETING.

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q. WHAT WILL HAPPEN IN THE MERGER?

A. In the merger, Gothic will become a wholly owned subsidiary of Chesapeake. Gothic common shareholders, other than Chesapeake and shareholders who demand appraisal of their shares, will become Chesapeake common shareholders and will own approximately 2.5% of the Chesapeake common shares estimated to be outstanding after the merger. Current Chesapeake common shareholders will own the remaining approximately 97.5%. Chesapeake will receive no merger consideration with respect to Gothic common stock it owned as of September 8, 2000 or which is issued to Chesapeake upon the conversion of Gothic preferred stock it owns. The outstanding Gothic preferred stock, all of which is owned by Chesapeake, will remain outstanding following the merger but the terms of the Gothic preferred stock will be amended.

Q. WHY ARE CHESAPEAKE AND GOTHIC PROPOSING THE MERGER?

A. Our companies are proposing the merger because we expect as a combined company to grow reserves, production, cash flow, and earnings faster and beyond the levels either company could achieve individually. We believe our companies have complementary assets and we seek to combine their respective strengths. Please read the more detailed description of our respective reasons for the merger beginning on pages 33 and 38.

Q. WHAT WILL I RECEIVE IN THE MERGER?

A. If the merger is completed, holders of Gothic common stock, other than Chesapeake or its subsidiaries, will receive Chesapeake common shares in exchange for their shares of Gothic common stock. The number of shares you will receive will be determined based on an exchange ratio. The exchange ratio to be used in the merger will equal the quotient obtained by dividing 4,000,000 shares of Chesapeake common stock to be issued in the merger by:

- the total number of issued and outstanding shares of Gothic common stock at the effective time of the merger, plus
- 53,572 shares issuable on exercise of outstanding Gothic warrants that were in the money on September 8, 2000, minus
- 2,394,125 shares of Gothic common stock which Chesapeake owned on September 8, 2000 and any Gothic common stock issued to Chesapeake with respect to any Gothic convertible securities owned by Chesapeake.

Based on the number of Gothic common shares outstanding on September 29, 2000 and the number of Gothic shares owned by Chesapeake, we anticipate the exchange ratio will be 0.1908. As a result, for each share of Gothic common stock you own on the record date of the merger, you will likely receive 0.1908 of a share of Chesapeake common stock, unless the exchange ratio is adjusted on the effective date. Chesapeake will pay cash instead of fractional shares of its common stock.

Q. WILL THE EXCHANGE RATIO CHANGE?

A. Unless the number of issued and outstanding shares of Gothic common stock changes between the date of this proxy statement/prospectus and the effective date of the merger, the exchange ratio of 0.1908 of a share of Chesapeake common stock for each share of Gothic common stock will not change. If the number of issued and outstanding shares of Gothic common stock changes, the exchange ratio will be adjusted accordingly. The only cause of any change in the exchange ratio would result from the exercise of outstanding Gothic options or warrants.

Q. HOW MANY SHARES OF CHESAPEAKE COMMON STOCK WILL BE OUTSTANDING AFTER THE MERGER?

A. If the merger had been completed on September 29, 2000, there would have been approximately 156.9 million shares of Chesapeake common stock outstanding, approximately 2.5% of which would

have been held by former shareholders of Gothic. This assumes the outstanding Gothic options and warrants to be assumed by Chesapeake were not exercised prior to the closing of the merger.

Q. WHERE WILL THE SHARES OF CHESAPEAKE COMMON STOCK BE LISTED?

A. The shares of Chesapeake common stock to be delivered in the merger will be listed on the New York Stock Exchange under the trading symbol "CHK."

Q. WHAT ARE THE TAX CONSEQUENCES TO GOTHIC SHAREHOLDERS OF THE MERGER?

A. While Chesapeake and Gothic intend for the merger to be a tax-free reorganization, the Chesapeake common stock received in the merger may or may not be tax-free to the shareholders of Gothic for U.S. federal income tax purposes. In any event, Gothic shareholders will be subject to tax on cash received instead of fractional shares. A more detailed description of the material U.S. federal income tax consequences of the merger appears on page 39.

Q. WHEN IS THE MERGER EXPECTED TO BE COMPLETED?

A. The merger will be completed after the Gothic special meeting and satisfaction or waiver of all conditions to the merger. Chesapeake and Gothic expect that the closing of the transaction will occur in January 2001.

Q. WHO MUST APPROVE THE MERGER?

A. In addition to the boards of directors of Chesapeake and Gothic, which have already approved the merger, the holders of a majority of Gothic's outstanding common stock must approve the merger.

Q. ARE GOTHIC SHAREHOLDERS ENTITLED TO APPRAISAL RIGHTS?

A. Yes. Under Oklahoma law, which governs Gothic and the rights of its shareholders, Gothic shareholders who comply with Section 1091 of the Oklahoma General Corporation Act are entitled to demand appraisal of the fair value of their shares instead of the merger consideration issuable by reason of the merger. If more than 5% of Gothic's shareholders demand appraisal rights, Chesapeake will have the option to terminate the merger agreement.

Q. WHAT IF I DON'T VOTE?

A. Because the merger requires the approval of the holders of a majority of Gothic's outstanding common stock, if you fail to respond, it will have the same effect as a vote AGAINST the merger. If you return a signed and dated proxy by mail and do not indicate how you want to vote, your proxy will be counted as a vote in FAVOR of the merger. If you respond and abstain from voting, your proxy will have the same effect as a vote AGAINST the merger.

Q. WHAT SHOULD I DO NOW?

A. After carefully reading and considering the information contained in this document, you should cast your vote on the merger by completing, signing, dating and mailing your proxy card. The completed proxy card should be returned in the enclosed, self-addressed postage-paid envelope. You can also attend the special meeting and vote in person. Gothic's board of directors recommends you vote FOR approval of the merger agreement and merger.

Q. IF MY SHARES OF GOTHIC COMMON STOCK ARE HELD IN "STREET NAME" BY MY BROKER, WILL MY BROKER VOTE MY SHARES FOR ME?

A. No. Your broker will vote your shares only if you provide instructions on how to vote. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares.

Q. ONCE I HAVE VOTED, MAY I CHANGE MY VOTE PRIOR TO THE GOTHIC SPECIAL MEETING?

A. Yes. You may change your vote at any time prior to your proxy being voted at the Gothic special meeting by sending a signed notice of revocation or a later-dated, signed proxy card to Gothic's

Secretary before the Gothic special meeting. If you hold your Gothic shares in your own name, you may change your vote by attending the Gothic special meeting and voting in person. If you hold your Gothic shares in "street name," you must contact your broker for instructions.

Q. IF I HOLD GOTHIC STOCK CERTIFICATES IN MY OWN NAME, SHOULD I SEND MY STOCK CERTIFICATES NOW?

A. No. You should not send your share certificates now. After the merger is completed, Chesapeake will cause its exchange agent to send you instructions for exchanging your shares of Gothic common stock for shares of Chesapeake common stock.

Q. WHAT WILL HAPPEN IN THE MERGER TO OUTSTANDING WARRANTS TO PURCHASE GOTHIC COMMON STOCK AND OUTSTANDING GOTHIC STOCK OPTIONS?

A. When the merger becomes effective, each outstanding option and warrant to purchase Gothic common stock will be assumed by Chesapeake and converted into an option or warrant to purchase shares of Chesapeake common stock. The number of shares to be issued on exercise of the assumed Gothic options and warrants and the exercise price will be adjusted based on the terms in the governing documents for the options and warrants. The other terms of the assumed options and warrants, such as vesting and exercisability, will remain the same.

Q. MAY I EXERCISE MY STOCK OPTIONS AND WARRANTS AND SELL SHARES OF GOTHIC COMMON STOCK BETWEEN NOW AND THE COMPLETION OF THE MERGER?

A. Yes, unless such securities constitute restricted securities or you are subject to limitations on trading by persons defined as Gothic "affiliates" and other restrictions on "insider trading" under securities laws.

Q. WHOM SHOULD I CALL WITH QUESTIONS?

A. If you have questions about the merger or if you would like copies of any of the documents referred to in this proxy statement/prospectus, please call (1) Thomas S. Price, Jr., Senior Vice President -- Corporate Development at Chesapeake at (405) 879-9257; or (2) Steven P. Ensz, Vice President, Finance at Gothic at (918) 749-5666. See also "Where You Can Find More Information" on page 125.

## SUMMARY

This summary highlights selected information from this document and does not contain all of the information that is important to you. To better understand the merger, you should carefully read this entire document and the documents to which you have been referred. In particular, you should read the annexes to this document, including the merger agreement and the opinion of CIBC World Markets Corp. which are attached as Annexes A and B, respectively.

## THE COMPANIES

**Chesapeake.** Chesapeake is an independent energy company focused on the exploration, development, acquisition and production of onshore natural gas reserves, principally in the Mid-Continent region of the United States. Chesapeake began operations in 1989 and completed its initial public offering in 1993. Chesapeake's common stock trades on the New York Stock Exchange under the symbol CHK. Chesapeake's principal executive offices are located at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118, and its main telephone number at that location is (405) 848-8000. Chesapeake maintains a website at [www.chkenergy.com](http://www.chkenergy.com).

**Gothic.** Gothic is an independent energy company engaged, through its operating subsidiary, in the exploration, development, acquisition and production of onshore natural gas reserves, principally in the Mid-Continent region of the United States. Gothic's common stock trades on the OTC Bulletin Board under the symbol GOTH. Gothic's principal executive offices are located at Two Warren Place -- Suite 1200, 6120 South Yale Avenue, Tulsa, Oklahoma 74136, and its telephone number at that location is (918) 749-5666.

## THE MERGER

**Description of the Merger.** In the merger, Chesapeake Merger 2000 Corp. will merge with and into Gothic and, as a result, Gothic will become a wholly owned subsidiary of Chesapeake. Gothic common shareholders, other than Chesapeake and shareholders demanding appraisal of their shares, will become Chesapeake common shareholders and will own approximately 2.5% of the Chesapeake common shares estimated to be outstanding after the merger. Current Chesapeake common shareholders will own the remaining approximately 97.5%. Chesapeake will receive no merger consideration with respect to Gothic common stock it owned as of September 8, 2000 or which is issued to Chesapeake upon the conversion of Gothic preferred stock it owns. The outstanding Gothic preferred stock, all of which is owned by Chesapeake, will remain outstanding following the merger but, as a consequence of the merger, the terms of the Gothic preferred stock will be amended.

**What Gothic Shareholders Will Receive.** If the merger is completed, holders of Gothic common stock, other than Chesapeake and shareholders who demand appraisal of their shares, will receive Chesapeake common shares in exchange for their shares of Gothic common stock. The number of shares you will receive will be determined based on an exchange ratio. The exchange ratio to be used in the merger will equal the quotient obtained by dividing 4,000,000 shares of Chesapeake common stock to be issued in the merger by:

- the total number of issued and outstanding shares of Gothic common stock at the effective time of the merger, plus
- 53,572 shares issuable on exercise of outstanding Gothic warrants that were in the money on September 8, 2000, minus
- 2,394,125 shares of Gothic common stock which Chesapeake owned on September 8, 2000 and any Gothic common stock issued to Chesapeake with respect to any Gothic convertible securities owned by Chesapeake.

Based on the number of Gothic common shares outstanding on September 29, 2000 and the number of Gothic shares owned by Chesapeake, we anticipate the exchange ratio will be 0.1908. As a result, for

each share of Gothic common stock you own on the record date for the merger, you will likely receive 0.1908 of a share of Chesapeake common stock, unless the exchange ratio is adjusted on the effective date. Chesapeake will pay cash instead of issuing fractional shares of its common stock.

**Treatment of Options and Warrants.** When the merger becomes effective, each outstanding option and warrant to purchase Gothic common stock will be assumed by Chesapeake and converted into an option or warrant to purchase shares of Chesapeake common stock. The number of shares to be issued on exercise of the assumed Gothic options and warrants and the exercise price will be adjusted based on the terms in the governing documents for the options and warrants. The other terms of the assumed options and warrants, such as vesting and exercisability, will remain the same.

**Exchange of Certificates.** Chesapeake will deposit, immediately after the effective date of the merger, the shares of Chesapeake common stock to be issued in the merger with UMB Bank, N.A. on behalf of the Gothic common shareholders, other than Chesapeake. Chesapeake will not deposit shares which would otherwise have been issuable to shareholders demanding appraisal rights or shares which would be issuable on exercise of outstanding Gothic warrants which were in the money on September 8, 2000, unless those warrants are exercised prior to the effective date of the merger.

UMB Bank, N.A. will act as the exchange agent. As soon as practicable following the effectiveness of the merger, each Gothic common shareholder entitled to Chesapeake common shares will be entitled to receive a certificate representing the number of shares of Chesapeake common stock issuable as consideration in the merger upon proper surrender of the shareholder's Gothic common stock certificates. The exchange agent may impose reasonable terms and conditions to accept the surrender of a certificate in accordance with normal exchange practices. Until surrendered, each certificate representing shares of Gothic common stock, other than those held by Chesapeake, will after the effective time of the merger be deemed to represent only the right to receive the merger consideration on surrender of the certificate.

**Fractional Shares.** Chesapeake will not issue fractional shares in connection with the merger. Each Gothic common shareholder who would otherwise have been entitled to a fraction of a share of Chesapeake common stock will instead receive a cash payment, without interest, equal to its proportionate interest in the amount of net proceeds from the sale by the exchange agent of the aggregate fractional shares of Chesapeake common stock.

#### THE GOTHIC SPECIAL MEETING; REASONS FOR THE MERGER

The special meeting of Gothic shareholders will be held at the Doubletree Hotel at Warren Place, 6110 South Yale Avenue in Tulsa, Oklahoma at 10:00 a.m. local time on 2000. At the special meeting, Gothic shareholders will be asked to vote to approve the merger agreement and the merger of Chesapeake Merger 2000 Corp. with and into Gothic. Approval of the merger proposal requires the favorable vote of a majority of the outstanding Gothic common stock. Gothic's directors and executive officers own 14.6% of the outstanding Gothic common stock entitled to vote at the special meeting and Chesapeake owns 10.3%. All of these shares will be voted in favor of the merger agreement. The vote of Chesapeake's shareholders is not required.

The board of directors of Gothic believes the merger is in the best interests of Gothic and its shareholders and recommends you vote FOR approval of the merger agreement and merger. In reaching its recommendation in favor of the merger, the Gothic board of directors considered a number of factors, including the following:

- Gothic's anticipated difficulty in meeting the cash debt service requirement commencing in May 2002 on the fully accreted value of \$104 million principal amount of discount notes;
- the absence, since May 1999, of Nasdaq SmallCap quotations for its common stock and the low market price for its shares;
- the lack of financial flexibility to expand and accelerate its drilling programs;
- the continuing reduction since April 1998 in its borrowing availability under its bank credit facility;

- the potential forced pooling of certain of its undeveloped natural gas and oil properties;
- the report of Gothic's independent accountants for 1999 containing an explanatory paragraph as to Gothic's ability to continue as a going concern; and
- the difficulty in entering into a transaction with an acquiror other than Chesapeake because of Gothic's highly leveraged and complex capital structure.

#### OPINION OF GOTHIC'S FINANCIAL ADVISER

CIBC World Markets Corp., Gothic's financial advisor, delivered a written opinion to the Gothic board of directors as to the fairness, from a financial point of view, of the exchange ratio to the Gothic shareholders. This opinion, dated September 8, 2000, is attached as Annex B to this document. You should read this opinion completely to understand the procedures followed, assumptions made, matters considered and limitation of the review undertaken. CIBC's opinion is addressed to the Gothic board of directors and does not constitute a recommendation as to how you should vote in connection with the merger. See "The Merger -- Opinion of Gothic's Financial Advisor."

#### CHESAPEAKE'S REASONS FOR THE MERGER

Chesapeake believes the merger is in the best interests of Chesapeake and its shareholders because it will create a company with greater asset value, greater oil and gas reserves and increased opportunities for the exploration, development, production and acquisition of oil and gas properties. The merger is a continuation of Chesapeake's strategy of focusing its operations on exploring, developing and acquiring natural gas reserves in the Mid-Continent region of the U.S. In addition, Chesapeake presently owns interests in a significant number of Gothic's oil and gas properties, and the two companies have operated under a participation agreement for the joint development of Gothic's non-producing properties since April 1998. The merger is consistent with Chesapeake's commitment to selectively acquire proved reserves on attractive terms as a complement to its traditional strategy of developing reserves through the drillbit.

#### APPRAISAL RIGHTS

Following a statutory appraisal proceeding in Oklahoma district court, Gothic common shareholders who do not vote for the merger and who perfect their appraisal rights in accordance with Section 1091 of the Oklahoma General Corporation Act will be entitled to receive, in lieu of the merger consideration, cash in the amount of the fair value of their shares, exclusive of any element of value arising from the accomplishment or expectation of the merger, as determined by the court in such appraisal proceeding, plus interest, if any, at a rate determined by the court. Because of the complexity of the procedures for exercising these rights, if you are considering exercising such rights we urge you to seek the advice of counsel. If you vote for the merger, you will be deemed to have accepted the consideration to be paid under the merger agreement and to have waived your appraisal rights with respect to the shares of Gothic common stock voted. In addition, if holders of more than 5% of the outstanding shares of Gothic common stock demand appraisal of their shares, Chesapeake will not be obligated to consummate the merger. IF YOU DO NOT VOTE FOR THE MERGER BUT FAIL TO TAKE ANY ACTION TO EXERCISE YOUR APPRAISAL RIGHTS, YOU MAY WAIVE OR LOSE THESE RIGHTS. SEE "THE MERGER -- APPRAISAL RIGHTS" AND ANNEX C, WHICH SETS FORTH SECTION 1091 OF THE OKLAHOMA GENERAL CORPORATION ACT IN FULL.

#### RESTRICTIONS ON THE ABILITY TO SELL CHESAPEAKE COMMON SHARES

Shares of Chesapeake common stock received in the merger will be freely tradable except for shares held by affiliates of Gothic. Shares issued to affiliates of Gothic will be subject to the provisions of Rule 145 under the Securities Act of 1933. Shares of Chesapeake common stock received on the exercise of assumed warrants will be considered to be restricted securities unless registered under the Securities Act of 1933.

## CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

While Chesapeake and Gothic intend for the merger to be a tax-free reorganization, the merger may or may not be a tax-free reorganization for U.S. federal income tax purposes. In any event, Gothic shareholders will be subject to tax on cash received instead of fractional shares of Chesapeake common stock. Neither Gothic nor Chesapeake has requested or received a ruling from the Internal Revenue Service with respect to the U.S. federal income tax treatment of the merger and neither Gothic nor Chesapeake has obtained or will obtain an opinion of counsel with respect to such treatment. Completion of the merger is not subject to the receipt of an opinion of counsel that the merger qualifies as a tax-free reorganization.

Tax matters are complicated, and the tax consequences of the proposed transactions to you may depend on the facts of your own situation and on variables not within our control. You should consult your own tax advisors for a full understanding of the tax consequences to you of the merger.

## INTERESTS OF CERTAIN PERSONS IN THE MERGER

In considering the recommendation of the Gothic board with respect to the merger, you should be aware that members of Gothic's management and the Gothic board of directors have interests in the merger separate from the interests of Gothic's shareholders generally. See "The Merger -- Interests of Certain Persons in the Merger." These separate interests include the following:

- Chesapeake will indemnify Gothic's officers and directors with respect to actions occurring prior to the merger;
- Michael Paulk, Gothic's President, and Steven P. Ensz, Gothic's Vice President and Chief Financial Officer, will be entitled to severance payments of \$225,000 and \$187,500, respectively, under their employment agreements with Gothic as a result of the closing of the merger and the termination of their employment;
- Michael Paulk and Steven P. Ensz will enter into two-year consulting agreements with Chesapeake following the merger which provide for payments to them of \$1,964,000 and \$1,623,500, respectively;
- Gothic previously loaned \$277,187 to each of Brian Bayley and John Fleming, directors of Gothic, which they used to pay the exercise price of options to purchase Gothic common stock. Each of these loans is secured by a pledge of 712,000 shares of Gothic common stock; and
- Michael Paulk, Steven P. Ensz, Brian Bayley and John Fleming have executed irrevocable proxies which grant Chesapeake the right to vote their shares in connection with the merger and which bind them to vote in favor of the merger.

## CONDITIONS TO THE MERGER

The obligations of Chesapeake and Gothic to effect the merger are subject to the satisfaction or waiver, in whole or in part, of a number of conditions prior to the effective time of the merger. These conditions include the following:

- approval of the merger by Gothic's shareholders;
- the holders of not more than 5% of the outstanding shares of Gothic common stock demanding appraisal of their shares, unless Chesapeake waives this condition;



- satisfaction of all conditions set forth in the \$275 million financing commitment Chesapeake has received from Bear, Stearns & Co. Inc.; and
- satisfaction of all conditions for a merger by Gothic contained in the indenture for the senior secured notes issued by Gothic's operating subsidiary, including its ability to meet, as of the closing date of the merger, the debt incurrence tests. If the closing date had been June 30, 2000, these tests would not have been met. Chesapeake and Gothic believe these tests will be met by the anticipated effective date of the merger based on Gothic's projected results of operations for 2000 and commodity futures prices for December 2000.

There are no federal or state regulatory approvals required to complete the merger.

#### TERMINATION OF THE MERGER AGREEMENT

Either party may unilaterally terminate the merger agreement if Gothic's shareholders do not approve the merger, if a governmental authority issues an order enjoining the merger, or if the merger is not consummated by June 30, 2001. In addition, either Gothic or Chesapeake can terminate the merger if the other party materially breaches any representations or warranties and such breach is not cured within 15 days following notice, so long as the breach would result in a material adverse effect. The merger may also be terminated in some circumstances if Gothic receives an unsolicited superior takeover proposal.

If the merger agreement is terminated due to the consummation of an acquisition proposal by a third party that the Gothic board of directors deems more favorable to the Gothic shareholders, Gothic will be obligated to pay Chesapeake a termination fee of \$10,000,000.

#### LISTING OF CHESAPEAKE COMMON STOCK

Chesapeake has agreed to use its best efforts to cause the shares of Chesapeake common stock issued in the merger to be listed for trading on the New York Stock Exchange. After the effective time of the merger, the Gothic common stock will cease public trading.

## SUMMARY SELECTED FINANCIAL DATA

## CHESAPEAKE ENERGY CORPORATION

The following table sets forth summary selected consolidated financial data of Chesapeake for the six months ended June 30, 2000 and 1999, the years ended December 31, 1999, 1998 and 1997, the six-month transition period ended December 31, 1997, the six months ended December 31, 1996 and the two fiscal years ended June 30, 1997 and 1996. The data are derived from our audited consolidated financial statements, except for periods for the six months ended June 30, 2000 and 1999, the year ended December 31, 1997 and the six months ended December 31, 1996, which are derived from unaudited consolidated financial statements of Chesapeake. Acquisitions we made during the first and second quarters of 1998 materially affect the comparability of the selected financial data for 1997 and 1998. Each of the acquisitions was accounted for using the purchase method. The table should be read in conjunction with "Chesapeake Energy Corporation Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements of Chesapeake, including the notes thereto, appearing in this proxy statement/prospectus.

	SIX MONTHS ENDED JUNE 30,	
	2000	1999
	(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)	
STATEMENT OF OPERATIONS DATA:		
Revenues:		
Oil and gas sales.....	\$ 187,514	\$ 120,078
Oil and gas marketing sales.....	61,610	26,491
	-----	-----
Total revenues.....	249,124	146,569
	-----	-----
Operating costs:		
Production expenses.....	25,126	25,175
Production taxes.....	10,933	4,788
General and administrative.....	6,220	7,292
Oil and gas marketing expenses.....	59,666	24,958
Oil and gas depreciation, depletion and amortization....	49,360	47,386
Depreciation and amortization of other assets.....	3,702	4,138
	-----	-----
Total operating costs.....	155,007	113,737
	-----	-----
Income from operations.....	94,117	32,832
	-----	-----
Other income (expense):		
Interest and other income.....	2,859	3,840
Interest expense.....	(42,677)	(40,149)
	-----	-----
	(39,818)	(36,309)
	-----	-----
Income (loss) before income taxes.....	54,299	(3,477)
Provision (benefit) for income taxes.....	1,463	326
	-----	-----
Net income (loss).....	52,836	(3,803)
Preferred stock dividends.....	(6,949)	(8,052)
Gain on redemption of preferred stock.....	11,895	--
	-----	-----
Net income (loss) available to common shareholders.....	\$ 57,782	\$ (11,855)
	=====	=====
Earnings (loss) per common share:		
Basic.....	\$ 0.53	\$ (0.12)
Assuming dilution.....	\$ 0.36	\$ (0.12)
Cash dividends declared per common share.....	\$ --	\$ --
CASH FLOW DATA:		
Cash provided by operating activities before changes in working capital.....	\$ 107,753	\$ 48,145
Cash provided by operating activities.....	83,870	47,566
Cash used in investing activities.....	(130,569)	(67,345)
Cash provided by financing activities.....	20,264	14,187
Effect of exchange rate changes on cash.....	(204)	3,625
BALANCE SHEET DATA (at end of period):		
Total assets.....	\$ 980,982	
Long-term debt, net of current maturities.....	983,230	
Stockholders' equity (deficit).....	(119,980)	

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED DECEMBER 31,		YEARS ENDED JUNE 30,	
	1999	1998	1997	1997	1996	1997	1996
	(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)						
<b>STATEMENT OF OPERATIONS DATA:</b>							
Revenues:							
Oil and gas sales.....	\$ 280,445	\$ 256,887	\$ 198,410	\$ 95,657	\$ 90,167	\$ 192,920	\$110,849
Oil and gas marketing sales.....	74,501	121,059	104,394	58,241	30,019	76,172	28,428
Oil and gas service operations.....	--	--	--	--	--	--	6,314
Total revenues.....	354,946	377,946	302,804	153,898	120,186	269,092	145,591
Operating costs:							
Production expenses.....	46,298	51,202	14,737	7,560	4,268	11,445	6,340
Production taxes.....	13,264	8,295	4,590	2,534	1,606	3,662	1,963
General and administrative.....	13,477	19,918	10,910	5,847	3,739	8,802	4,828
Oil and gas marketing expenses.....	71,533	119,008	103,819	58,227	29,548	75,140	27,452
Oil and gas service operations.....	--	--	--	--	--	--	4,895
Oil and gas depreciation, depletion and amortization.....	95,044	146,644	127,429	60,408	36,243	103,264	50,899
Depreciation and amortization of other assets.....	7,810	8,076	4,360	2,414	1,836	3,782	3,157
Impairment of oil and gas properties...	--	826,000	346,000	110,000	--	236,000	--
Impairment of other assets.....	--	55,000	--	--	--	--	--
Total operating costs.....	247,426	1,234,143	611,845	246,990	77,240	442,095	99,534
Income (loss) from operations.....	107,520	(856,197)	(309,041)	(93,092)	42,946	(173,003)	46,057
Other income (expense):							
Interest and other income.....	8,562	3,926	87,673	78,966	2,516	11,223	3,831
Interest expense.....	(81,052)	(68,249)	(29,782)	(17,448)	(6,216)	(18,550)	(13,679)
	(72,490)	(64,323)	57,891	61,518	(3,700)	(7,327)	(9,848)
Income (loss) before income taxes and extraordinary item.....	35,030	(920,520)	(251,150)	(31,574)	39,246	(180,330)	36,209
Provision (benefit) for income taxes.....	1,764	--	(17,898)	--	14,325	(3,573)	12,854
Income (loss) before extraordinary item.....	33,266	(920,520)	(233,252)	(31,574)	24,921	(176,757)	23,355
Extraordinary item:							
Loss on early extinguishment of debt, net of applicable income taxes.....	--	(13,334)	(177)	--	(6,443)	(6,620)	--
Net income (loss).....	33,266	(933,854)	(233,429)	(31,574)	18,478	(183,377)	23,355
Preferred stock dividends.....	(16,711)	(12,077)	--	--	--	--	--
Net income (loss) available to common shareholders.....	\$ 16,555	\$ (945,931)	\$(233,429)	\$(31,574)	\$ 18,478	\$(183,377)	\$ 23,355
Earnings (loss) per common share --Basic:							
Income (loss) before extraordinary item.....	\$ 0.17	\$ (9.83)	\$ (3.30)	\$ (0.45)	\$ 0.40	\$ (2.69)	\$ 0.43
Extraordinary item.....	--	(0.14)	--	--	(0.10)	(0.10)	--
Net income (loss).....	\$ 0.17	\$ (9.97)	\$ (3.30)	\$ (0.45)	\$ 0.30	\$ (2.79)	\$ 0.43
Earnings (loss) per common share -- Assuming dilution:							
Income (loss) before extraordinary item.....	\$ 0.16	\$ (9.83)	\$ (3.30)	\$ (0.45)	\$ 0.38	\$ (2.69)	\$ 0.40
Extraordinary item.....	--	(0.14)	--	--	(0.10)	(0.10)	--
Net income (loss).....	\$ 0.16	\$ (9.97)	\$ (3.30)	\$ (0.45)	\$ 0.28	\$ (2.79)	\$ 0.40
Cash dividends declared per common share.....	\$ --	\$ 0.04	\$ 0.06	\$ 0.04	\$ --	\$ 0.02	\$ --
<b>CASH FLOW DATA:</b>							
Cash provided by operating activities before changes in working capital.....	\$ 138,727	\$ 117,500	\$ 152,196	\$ 67,872	\$ 76,816	\$ 161,140	\$ 88,431
Cash provided by operating activities....	145,022	94,639	181,345	139,157	41,901	84,089	120,972
Cash used in investing activities.....	159,773	548,050	476,209	136,504	184,149	523,854	344,389
Cash provided by (used in) financing activities.....	18,967	363,797	277,985	(2,810)	231,349	512,144	219,520
Effect of exchange rate changes on cash.....	4,922	(4,726)	--	--	--	--	--
<b>BALANCE SHEET DATA (at end of period):</b>							
Total assets.....	\$ 850,533	\$ 812,615	\$ 952,784	\$952,784	\$860,597	\$ 949,068	\$572,335
Long-term debt, net of current maturities.....	964,097	919,076	508,992	508,992	220,149	508,950	268,431
Stockholders' equity (deficit).....	(217,544)	(248,568)	280,206	280,206	484,062	286,889	177,767

## GOTHIC ENERGY CORPORATION

The following table sets forth summary selected consolidated financial data of Gothic for the six months ended June 30, 2000 and 1999, and the years ended December 31, 1999 and 1998. The data are derived from Gothic's audited consolidated financial statements, except for periods for the six months ended June 30, 2000 and 1999, which are derived from unaudited consolidated financial statements of Gothic. The table should be read in conjunction with "Gothic Energy Corporation Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements of Gothic, including the notes thereto, appearing in this proxy statement/prospectus.

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEMBER 31,	
	2000	1999	1999	1998
	(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)			
<b>STATEMENT OF OPERATIONS DATA:</b>				
Revenue:				
Oil and gas sales.....	\$ 31,863	\$ 23,417	\$ 52,967	\$ 50,714
Well operations.....	1,356	1,259	2,657	2,319
Total revenues.....	33,219	24,676	55,624	53,033
Operating costs:				
Lease operating expenses.....	2,390	2,987	5,725	8,609
Production taxes.....	2,053	1,614	3,880	3,520
General and administrative expense.....	1,976	1,984	4,675	3,823
Investment banking and related fees.....	785	--	638	--
Oil and gas depreciation, depletion, and amortization.....	9,625	10,402	20,444	23,626
Depreciation and amortization of other assets.....	350	250	525	375
Provision for impairment of natural gas and oil properties.....	--	--	--	76,000
Total operating costs.....	17,179	17,237	35,887	115,953
Income (loss) from operations.....	16,040	7,439	19,737	(62,920)
Other income (expense):				
Interest and other income.....	50	817	942	128
Interest expense.....	(19,490)	(18,727)	(37,988)	(35,438)
Loss before extraordinary item.....	(3,400)	(10,471)	(17,309)	(98,230)
Loss on early extinguishment of debt.....	--	--	--	31,459
Net loss.....	(3,400)	(10,471)	(17,309)	(129,689)
Preferred dividend.....	3,715	3,291	6,820	5,599
Preferred dividend -- amortization of preferred discount.....	923	923	1,847	5,095
Net loss available to common shareholders.....	\$ (8,038)	\$ (14,685)	\$ (25,976)	\$ (140,383)
Loss per common share before extraordinary item, basic and diluted.....				
	\$ (0.43)	\$ (0.90)	\$ (1.51)	\$ (6.70)
Loss per common share, basic and diluted.....				
	\$ (0.43)	\$ (0.90)	\$ (1.51)	\$ (8.63)
<b>CASH FLOW DATA:</b>				
Cash provided by operating activities before changes in working capital.....	\$ 12,583	\$ 5,687	\$ 15,286	\$ 9,788
Cash provided by operating activities.....	8,339	3,017	13,707	11,567
Cash used in investing activities.....	(11,328)	(10,861)	(22,241)	(191,375)
Cash provided by financing activities.....	5,723	7,424	8,828	165,375
<b>BALANCE SHEET DATA (at end of period):</b>				
Total assets.....	246,126	236,500	238,397	237,288
Long-term debt, net.....	315,958	313,353	319,857	301,179
Stockholder's equity (deficit).....	(104,433)	(94,376)	(101,035)	(83,921)

## SUMMARY PRO FORMA COMBINED FINANCIAL DATA

The pro forma combined balance sheet data as of June 30, 2000 give effect to the merger as if it occurred on that date. The pro forma combined income statement data give effect to the merger as if it occurred on January 1, 1999.

We have included this summary unaudited pro forma information only for the purposes of illustration, and it does not necessarily indicate what the operating results or financial position would have been if the merger had been completed at the dates indicated. Moreover, this information does not necessarily indicate what the future operating results or financial position of the combined company will be. You should read this summary pro forma combined financial data in conjunction with the "Pro Forma Combined Financial Data" included elsewhere in this document.

	SIX MONTHS ENDED JUNE 30, 2000	YEAR ENDED DECEMBER 31, 1999
(IN THOUSANDS, EXCEPT PER SHARE DATA)		
OPERATING DATA		
Operating revenues.....	\$ 280,987	\$407,913
Net income (loss) available to common shareholders.....	54,672	(858)
PER SHARE INFORMATION		
Net income (loss) -- basic.....	\$ 0.47	\$ (0.01)
Net income (loss) -- diluted.....	0.32	(0.01)
BALANCE SHEET DATA (AT END OF PERIOD)		
Total assets.....	\$1,296,784	
Long-term debt.....	1,198,343	
Stockholders' equity (deficit).....	(69,145)	

## SUMMARY OIL AND GAS RESERVE INFORMATION

The following table sets forth summary information with respect to Chesapeake's and Gothic's estimated proved oil and gas reserves as of December 31, 1999.

	OIL (MBBL)	GAS (MMCF)	TOTAL (MMCFE)	PRESENT VALUE (IN THOUSANDS)
-----				
Chesapeake Proved Reserves				
Developed.....	17,750	763,323	869,823	\$ 867,985
Undeveloped.....	7,045	293,503	335,772	221,511
	-----	-----	-----	-----
Total.....	24,795	1,056,826	1,205,595	\$1,089,496
	=====	=====	=====	=====
Gothic Proved Reserves				
Developed.....	1,683	251,631	261,726	\$ 193,292
Undeveloped.....	239	37,560	38,996	20,040
	-----	-----	-----	-----
Total.....	1,922	289,191	300,722	\$ 213,332
	=====	=====	=====	=====

The present value amounts represent the present value of future net revenue before income taxes discounted at 10%, using prices and costs in effect at December 31, 1999. The weighted average prices used in calculating Chesapeake's present value were \$24.72 per barrel of oil and \$2.25 per Mcf of natural gas. The prices used in calculating Gothic's present value were \$24.33 per barrel and \$1.89 per Mcf.

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and the timing of development expenditures. See "Chesapeake's Business -- Oil and Gas Reserves" beginning on page 55 and "Gothic's Business -- Natural Gas and Oil Reserves" beginning on page 94.

## COMPARATIVE PER SHARE DATA

We have set forth below information concerning net income (loss), cash dividends declared and book value per common share for Chesapeake and Gothic on both an historical and a pro forma basis. You should read the table together with the financial information for Chesapeake and Gothic included in this proxy statement/prospectus. You should not rely on the pro forma financial information as an indication of the results that Chesapeake would have achieved if the merger had taken place earlier or of the results of Chesapeake after the merger.

	SIX MONTHS ENDED JUNE 30, 2000	YEAR ENDED DECEMBER 31, 1999
	-----	-----
Chesapeake Historical -- Per Common Share		
Net income (loss)		
Basic.....	\$ 0.53	\$ 0.17
Diluted.....	\$ 0.36	\$ 0.16
Cash dividends.....	\$ 0.00	\$ 0.00
Book value(1).....	\$(0.84)	\$ (2.06)
Gothic Historical -- Per Common Share		
Net income (loss) -- basic and diluted.....	\$(0.43)	\$ (1.51)
Cash dividends.....	\$ 0.00	\$ 0.00
Book value(1).....	\$(5.59)	\$ (5.41)
Pro Forma Combined -- Per Common Share		
Net income (loss)		
Basic.....	\$ 0.47	\$ (0.01)
Diluted.....	\$ 0.32	\$ (0.01)
Cash dividends.....	\$ 0.00	\$ 0.00
Book value(2).....	\$(0.46)	
Pro Forma Combined -- Per Gothic Equivalent Common Share(3)		
Net income (loss)		
Basic.....	\$ 0.09	\$(0.002)
Diluted.....	\$ 0.06	\$(0.002)
Cash dividends.....	\$ 0.00	\$ 0.00
Book value.....	\$(0.09)	

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- (1) The historical book value per common share amounts are computed by dividing each company's stockholders' equity by its actual common shares outstanding as of June 30, 2000 and December 31, 1999.
- (2) The pro forma combined book value per common share amounts are computed by dividing pro forma stockholders' equity by the pro forma number of common shares of Chesapeake outstanding as of June 30, 2000, assuming the merger had occurred as of that date.
- (3) The pro forma combined per Gothic equivalent share amounts are computed by multiplying the pro forma combined share amounts by the exchange ratio of 0.1908 shares of Chesapeake common stock for each share of Gothic common stock.

## COMPARATIVE MARKET VALUE INFORMATION

The following table sets forth:

- the closing prices and bid prices per share and aggregate market values of Chesapeake common stock on the New York Stock Exchange and of Gothic common stock on the OTC Bulletin Board on June 29, 2000, the last trading day prior to the public announcement of the proposed merger, and on October 3, 2000, the most recent date for which prices were available prior to the date of this proxy statement/prospectus; and
- the equivalent per share and equivalent market value of Gothic common stock, based on the exchange ratio of 0.1908.

	CHESAPEAKE -----	GOTHIC -----	GOTHIC EQUIVALENT -----
On June 29, 2000			
Closing/bid price per common share.....	\$7.00	\$0.50	\$1.34
Market value of common shares (in 000's).....	\$ 976,252	\$ 9,343	\$25,039
On October 3, 2000			
Closing/bid price per common share.....	\$7.44	\$1.27	\$1.42
Market value of common shares (in 000's).....	\$1,137,550	\$29,597	\$33,093

Market value is based on 139,464,502 Chesapeake common shares and 18,685,765 Gothic common shares outstanding as of June 29, 2000, and 152,896,625 Chesapeake common shares and 23,305,076 Gothic common shares outstanding as of October 3, 2000, excluding shares held in treasury or by subsidiaries.

## RISK FACTORS

An investment in Chesapeake common stock involves risks. In considering whether to vote in favor of the merger, you should carefully consider the following risk factors, together with the other information contained in this proxy statement/prospectus.

## RISKS RELATED TO THE MERGER

The market value of Chesapeake common shares that Gothic shareholders receive in the merger will vary as a result of stock price fluctuations.

The merger consideration is fixed at 4,000,000 shares of Chesapeake common stock, and the exchange ratio will change only if there is an increase or decrease in the number of outstanding shares of Gothic common stock, such as by the exercise of outstanding Gothic options or warrants. The exchange ratio will not be adjusted for any increase or decrease in the price of Chesapeake common shares or Gothic common shares. The price of Chesapeake common shares at the time the merger is completed may be higher or lower than the price on the date of this document or on the date of the special meeting. Changes in the business operations or prospects of Chesapeake or Gothic, market assessments of the benefits of the merger and of the likelihood that the merger will be completed, oil and gas prices, general market and economic conditions or other factors may affect the prices of Chesapeake common shares or Gothic common shares. Most of these factors are beyond Chesapeake's and Gothic's control.

Because the merger will be completed after the special meeting of the Gothic shareholders is held, there is no way to be sure that the price of the Chesapeake common shares on the date of the special meeting will be indicative of the price at the time the merger is completed. We urge you to obtain current market quotations for both Chesapeake common shares and Gothic common shares.

If the businesses of Chesapeake and Gothic cannot be successfully integrated, we may not achieve the anticipated benefits of the merger.

If Chesapeake and the shareholders of the combined company are to realize the anticipated benefits of the merger, the operations of Chesapeake and Gothic must be integrated and combined efficiently and effectively. We cannot assure you that the integration will be successful or that we will realize the anticipated benefits of the merger. For example, we may experience difficulties and expenses in combining our operations, technology, systems and employees, or there may be adverse effects from the enforcement of change of control provisions under various Gothic contracts, including indentures and seismic agreements. Similarly, we cannot guarantee that you will achieve greater value through your ownership of Chesapeake common stock than you would have achieved as a shareholder of Gothic as a separate entity. It is possible that our integration activities will result in a decrease in the value of our common stock or that other factors could adversely affect our future stock price.

The costs of the merger, the costs of integrating Gothic into Chesapeake's business and other potential adjustments will be substantial.

We estimate it will cost approximately \$12.8 million to consummate the merger. These costs will consist of payments to former Gothic employees, transaction fees for investment bankers, attorneys and accountants, and other related costs incurred by Chesapeake and Gothic. In addition, we will incur costs of approximately \$3.2 million in connection with the establishment of a standby credit facility. We will incur an additional \$2.75 million of expenses if we use our standby credit facility.

We may incur additional charges in excess of these amounts to reflect the actual costs incurred associated with the merger, including the costs of integrating Gothic's business with ours.



The failure of the merger to qualify as a tax-free reorganization may result in an increased tax burden to Gothic shareholders.

If the merger qualifies as a tax-free reorganization, you will not recognize gain or loss by virtue of your receipt of Chesapeake common stock for your Gothic common stock.

However, if the merger does not qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code, you will recognize gain or loss based on the entire per share merger consideration you receive. Thus, you could incur significant tax obligations payable in cash, even though you receive no cash merger consideration to pay such obligations, if the merger does not qualify as a tax-free reorganization. For more information on the material tax consequences of the merger, see "The Merger -- Certain United States Federal Income Tax Consequences" on page 39.

Sales of substantial amounts of Chesapeake's common stock in the open market could depress Chesapeake's stock price.

If our shareholders sell substantial amounts of our stock in the public market following consummation of the merger, including shares issued on the exercise of outstanding options and warrants, the market price of our common stock could fall. These sales might also make it more difficult for us to sell equity or equity-related securities, or make acquisitions using our common stock, at a time and price that we would deem appropriate. Immediately after the merger, we estimate there will be approximately 156.9 million shares of our common stock outstanding. All of the shares issued to Gothic shareholders will be freely tradable without restrictions or further registration under the Securities Act of 1933, unless such shares are held by any "affiliate" of ours or any "affiliate" of Gothic prior to the merger, as that term is defined under the Securities Act of 1933. The term "affiliate" would include directors, executive officers and some significant stockholders. In addition, we have recently registered for resale 9.5 million shares of our outstanding common stock and have agreed to register an additional 4.1 million shares pursuant to registration rights agreements we have with former Gothic noteholders. These shares are fully tradable upon registration.

Failure to complete the merger could negatively impact Gothic's stock price and future business and operations.

If the merger is not completed, Gothic may be subject to the following material risks:

- Gothic may need to seek protection under bankruptcy laws,
- the price of Gothic common stock may decline to the extent that the current market price of Gothic common stock reflects a market assumption that the merger will be completed, and
- costs related to the merger, such as legal, accounting and financial advisor fees, must be paid even if the merger is not completed.

If the merger agreement is terminated and Gothic's board of directors determines to seek another merger or business combination, there can be no assurance that it will be able to find a partner willing to pay an equivalent or more attractive price than that which would be paid in the merger. In addition, while the merger agreement is in effect and subject to the limited exceptions described on page 47 of this proxy statement/prospectus, Gothic is prohibited from directly or indirectly soliciting or encouraging the initiation of any inquiries or proposals regarding certain extraordinary transactions, such as a merger, sale of assets or similar transactions, with any party other than Chesapeake. Gothic may also be obligated to pay to Chesapeake a termination fee of \$10,000,000 if the merger agreement is terminated.

The opinion obtained by Gothic from its financial advisor will not reflect changes in circumstances prior to the merger.

Gothic does not intend to obtain an updated opinion from its financial advisor prior to the consummation of the merger. Changes in the operations and prospects of Chesapeake or Gothic, general

market and economic conditions and other factors on which the opinion of its financial advisor is based, may alter the value of Chesapeake or Gothic or our respective stock prices by the time the merger is completed. As a result, you should be aware that the opinion of CIBC World Markets Corp. does not address the fairness of the merger consideration at the time the merger will be completed.

The consummation of the proposed acquisition may not occur or could be delayed if conditions to the merger are not met.

There are significant conditions to be satisfied before we will be able to acquire Gothic as contemplated by this proxy statement/prospectus. These conditions include the following:

- approval of the merger by Gothic's shareholders;
- the holders of not more than 5% of the outstanding shares of Gothic common stock demanding appraisal of their shares, unless Chesapeake waives this condition;
- satisfaction of all conditions set forth in the \$275 million financing commitment Chesapeake has received from Bear, Stearns & Co. Inc.; and
- satisfaction of all conditions for a merger by Gothic contained in the indenture for senior secured notes issued by Gothic's operating subsidiary, including its ability to meet, as of the closing date of the merger, the debt incurrence tests. If the closing date had been June 30, 2000, these tests would not have been met.

Chesapeake and Gothic cannot assure you that these conditions will be satisfied or guarantee that they will be satisfied in January 2001 when we expect the merger to be completed.

#### RISKS RELATED TO CHESAPEAKE'S BUSINESS

If we are not able to meet our debt service obligations, our operations could suffer.

As of June 30, 2000, we had long-term indebtedness of \$983.2 million, which included bank indebtedness of \$63.0 million, and our stockholders' equity was a deficit of \$120.0 million. If the merger had been completed as of June 30, 2000, our long-term indebtedness, on a pro forma basis, would have been \$1.2 billion. Our ability to meet our debt service requirements throughout the life of our senior notes and, if the merger is completed, the senior notes of Gothic's subsidiary, and our ability to meet our preferred stock obligations will depend on our future performance. Our future performance will be subject to oil and gas prices, our production levels of oil and gas, general economic conditions, and various financial, business and other factors affecting our operations. Our level of indebtedness may have the following effects on future operations:

- a substantial portion of our cash flow from operations may be dedicated to the payment of interest and principal on indebtedness and will not be available for other purposes,
- restrictions in our debt instruments limit our ability to borrow additional funds or to dispose of assets and may affect our flexibility in planning for, and reacting to, changes in the energy industry, and
- our ability to obtain additional capital in the future may be impaired.

Our business is subject to the volatility of oil and gas prices.

Our revenues, operating results and future rate of growth are highly dependent on the prices we receive for our oil and gas. Historically, the markets for oil and gas have been volatile and may continue to

be volatile in the future. Various factors which are beyond our control will affect prices of oil and gas. These factors include:

- worldwide and domestic supplies of oil and gas,
- weather conditions,
- the ability of the members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls,
- political instability or armed conflict in oil-producing regions,
- the price and level of foreign imports,
- the level of consumer demand,
- the price and availability of alternative fuels,
- the availability of pipeline capacity, and
- domestic and foreign governmental regulations and taxes.

We are unable to predict the long-term effects of these and other conditions on the prices of oil and gas. Lower oil and gas prices may reduce the amount of oil and gas we produce, which may adversely affect our revenues and operating income. Significant reductions in oil and gas prices may require us to reduce our capital expenditures. Reducing drilling will make it more difficult for us to replace the reserves we produce.

If we are not able to replace reserves, we may not be able to sustain production.

As is customary in the oil and gas exploration and production industry, our future success depends largely upon our ability to find, develop or acquire additional oil and gas reserves that are economically recoverable. Unless we replace the reserves we produce through successful development, exploration or acquisition, our proved reserves will decline over time. In addition, approximately 28% by volume, or 20% by value, of our total estimated proved reserves at December 31, 1999 were undeveloped. By their nature, undeveloped reserves are less certain. Recovery of such reserves will require significant capital expenditures and successful drilling operations. We cannot assure you that we can successfully find and produce reserves economically in the future.

If we do not make significant capital expenditures, we may not be able to exploit reserves.

We must make substantial capital expenditures in connection with the exploration, development and production of our oil and gas properties. Historically, we have funded our capital expenditures through a combination of internally generated funds, equity issuances and long-term debt financing arrangements and sale of non-core assets. From time to time, we have used short-term bank debt, generally as a working capital facility. Future cash flows are subject to a number of variables, such as the level of production from existing wells, prices of oil and gas, and our success in developing and producing new reserves. If revenue were to decrease as a result of lower oil and gas prices or decreased production, and our access to capital were limited, we would have a reduced ability to replace our reserves. If our cash flow from operations is not sufficient to fund our capital expenditure budget, there can be no assurance that additional debt or equity financing will be available to meet these requirements.

Drilling and oil and gas operations are hazardous.

Drilling activities are subject to many risks, including well blowouts, cratering, uncontrollable flows of oil, natural gas or well fluids, fires, formations with abnormal pressures, pollution, releases of toxic gases and other environmental hazards and risk, any of which could result in substantial losses. In addition, we incur the risk that we will not encounter any commercially productive reservoirs through our drilling operations. We cannot assure you that the new wells we drill will be productive or that we will recover all

or any portion of our investment in wells drilled. Drilling for oil and gas may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce enough reserves to return a profit after drilling, operating and other costs.

Our debt covenants may restrict our operations.

Our bank credit agreement and the indentures which govern our senior notes contain covenants which may restrict our ability, and the ability of most of our subsidiaries, to engage in the following activities:

- incurring additional debt,
- creating liens,
- paying dividends and making other restricted payments,
- merging or consolidating with any other entity,
- selling, assigning, transferring, leasing or otherwise disposing of all or substantially all of our assets, and
- guaranteeing indebtedness.

From December 31, 1998 through March 31, 2000, we did not meet a debt incurrence test contained in two of our senior note indentures and were therefore not able to incur unsecured debt or pay dividends on our preferred stock. Beginning June 30, 2000, we met the debt incurrence test, but significantly lower oil and gas prices or poor operating results could cause us to fail this test in the future.

In addition, the indenture for the senior secured notes of Gothic's operating subsidiary contains similar covenants which, after the merger, may restrict Gothic's activities.

Canadian operations present the risks associated with conducting business outside the U.S.

A portion of our business is conducted in Canada. You may review the amounts of revenue, operating income (loss) and identifiable assets attributable to our Canadian operations in note 8 of the notes to Chesapeake's audited consolidated financial statements included at the end of this proxy statement/prospectus. Also, note 11 of the audited consolidated financial statements provides disclosures about our Canadian oil and gas producing activities. Our operations in Canada are subject to the risks associated with operating outside of the United States. These risks include the following:

- adverse local political or economic developments,
- exchange controls,
- currency fluctuations,
- royalty and tax increases,
- retroactive tax claims,
- negotiations of contracts with governmental entities, and
- import and export regulations.

In addition, in the event of a dispute, we may be required to litigate the dispute in Canadian courts since we may not be able to sue foreign persons in a United States court.

Transactions with executive officers may create conflicts of interest.

Our chief executive officer, Aubrey K. McClendon, and our chief operating officer, Tom L. Ward, have the right to participate in certain wells we drill, subject to certain limitations outlined in their employment contracts. As a result of their participation, they routinely have significant accounts payable to

Chesapeake for joint interest billings and other related advances. As of June 30, 2000, Messrs. McClendon and Ward had payables to Chesapeake of \$1.5 million and \$1.4 million, respectively, in connection with such participation. The rights to participate in wells we drill could present a conflict of interest with respect to Messrs. McClendon and Ward.

The ownership of a significant percentage of stock by insiders could influence the outcome of shareholder votes.

At September 29, 2000, our board of directors and senior management beneficially owned an aggregate of 25,198,434 shares of our common stock, including outstanding vested options, which represented approximately 16% of our outstanding shares. The beneficial ownership of Messrs. McClendon and Ward accounted for 14% of our outstanding common stock. As a result, Messrs. McClendon and Ward, together with our other officers and directors, are in a position to significantly influence matters requiring the vote or consent of our shareholders.

## FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus includes "forward-looking statements" made by both Gothic and Chesapeake within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include statements regarding oil and gas reserve estimates, planned capital expenditures, expected oil and gas production, Chesapeake's and Gothic's financial positions, business strategy and other plans and objectives for future operations, expected future expenses, realization of deferred tax assets, the proposed acquisition of Gothic, the parties' abilities to meet the closing conditions in the merger agreement and the combined entity's future operations. In addition to these statements, forward-looking statements may be included within this document under the following captions:

- "Risk Factors"
- "Chesapeake's Reasons for the Merger"
- "Gothic's Reasons for the Merger"
- "Recommendation of Gothic's Board of Directors"
- "Opinion of Gothic's Financial Advisor"

Although we believe the expectations reflected in these and other forward-looking statements are reasonable, we can give no assurance that our expectations will prove to have been correct. Factors that could cause actual results to differ materially from expected results, include:

- uncertainties relating to the proposed business combination with Gothic;
- our substantial indebtedness;
- fluctuations in the prices of oil and gas;
- need to replace reserves;
- substantial capital requirements;
- uncertainties inherent in estimating quantities of oil and gas reserves;
- projecting future rates of production and the timing of development expenditures;
- operating risks;
- restrictions imposed by lenders;
- the effects of governmental and environmental regulation;
- pending or future litigation; and
- conflicts of interest our CEO and COO may have.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this proxy statement/prospectus, and we undertake no obligation to update this information. We urge you to carefully review and consider the disclosures made in this document and in our other reports filed with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect our business.

## COMPARATIVE PER SHARE PRICES

Chesapeake's common shares are listed on the New York Stock Exchange under the symbol "CHK." Gothic's common shares are quoted on the OTC Bulletin Board under the symbol "GOTH." The following table sets forth, for the periods indicated, the high and low sales prices per share of the Chesapeake common stock as reported by the New York Stock Exchange and the high and low bid quotations on the OTC Bulletin Board per share for the Gothic common stock:

	CHESAPEAKE COMMON STOCK		GOTHIC COMMON STOCK	
	HIGH	LOW	HIGH	LOW
1998:				
First Quarter.....	\$7.75	\$5.50	\$3.06	\$1.81
Second Quarter.....	6.00	3.88	2.38	1.19
Third Quarter.....	4.06	1.13	1.59	0.56
Fourth Quarter.....	2.63	0.75	0.72	0.22
1999:				
First Quarter.....	1.50	0.63	0.72	0.38
Second Quarter.....	2.94	1.31	0.81	0.42
Third Quarter.....	4.13	2.75	0.53	0.41
Fourth Quarter.....	3.88	2.13	0.44	0.16
2000:				
First Quarter.....	3.31	1.94	0.47	0.14
Second Quarter.....	8.00	2.75	1.06	0.24
Third Quarter.....	8.25	5.31	1.39	0.98

On June 29, 2000, the last trading day prior to the public announcement of the proposed merger, the closing price of Chesapeake common stock was \$7.00 and the closing bid quotation on Gothic common stock was \$0.50. On October 3, 2000, the most recent date for which prices were available prior to the date of this document, the Chesapeake common stock closing price was \$7.44 and the Gothic common stock closing bid quotation was \$1.27.

At October 3, 2000 there were 1,041 holders of record of Chesapeake common stock and approximately 26,000 beneficial owners. At September 7, 2000 there were 165 holders of record of Gothic common stock and approximately 500 beneficial owners.

## DIVIDEND INFORMATION

## CHESAPEAKE

We paid quarterly dividends of \$0.02 per share of common stock from July 1997 to July 1998. The payment of future cash dividends on common stock, if any, will be reviewed periodically by our board of directors and will depend on, among other things, our financial condition, funds from operations, the level of capital and development expenditures, our future business prospects and any contractual restrictions.

Our bank credit agreement and two of the indentures governing our outstanding senior notes contain restrictions on our ability to declare and pay dividends. Under these indentures, we may not pay any cash dividends on our common or preferred stock if:

- a default or an event of default has occurred and is continuing at the time of or immediately after giving effect to the dividend payment;
- we would not be able to incur at least \$1 of additional indebtedness under the terms of the indentures; or
- immediately after giving effect to the dividend payment, the aggregate of all dividends and other restricted payments declared or made after the respective issue dates of the notes exceeds the sum of specified income, proceeds from the issuance of stock and debt and other amounts from the quarter in which the respective note issuances occurred to the quarter immediately preceding the date of the dividend payment.

From December 31, 1998 through March 31, 2000, we did not meet the debt incurrence tests under the indentures and were not able to pay dividends on our common or preferred stock. We did meet the debt incurrence tests as of June 30, 2000, and are therefore able to incur unsecured debt and we are eligible to resume the payment of dividends on our preferred stock. On September 22, 2000, our board of directors declared a regular quarterly dividend and a special dividend in the amount of all accrued and unpaid dividends on the preferred stock, payable on November 1, 2000.

During the first six months of 2000, we entered into a number of unsolicited transactions whereby we issued approximately 34.2 million shares of common stock, plus cash of \$8.3 million, in exchange for 3,039,363 shares of preferred stock. This reduced the liquidation amount of preferred stock outstanding by \$152.0 million to \$77.9 million, and reduced the amount of preferred dividends in arrears by \$16.8 million to \$9.5 million as of June 30, 2000.

From July 1 to August 16, 2000, we engaged in additional transactions in which we exchanged 9.2 million shares of our common stock for 933,000 shares of our preferred stock with a liquidation value of \$46.7 million plus dividends in arrears of \$6.1 million.

## GOTHIC

Gothic has never paid a cash dividend on its common stock and its management has no present intention of commencing to pay dividends on its common stock. Gothic's loan documents and indentures prohibit Gothic from paying cash dividends on its common stock. Additionally, in the merger agreement Gothic agreed that, until the merger is completed or the merger agreement is terminated, Gothic will not declare, set aside, make or pay any dividend or other distribution on its capital stock.



## PRO FORMA COMBINED FINANCIAL DATA

The following unaudited pro forma combined financial statements are derived from the historical financial statements of Chesapeake and Gothic included in this proxy statement/prospectus. The pro forma combined statements of operations for the six months ended June 30, 2000 and for the year ended December 31, 1999 reflect the Gothic acquisition, accounted for as a purchase, as if the acquisition occurred on January 1, 1999. The pro forma combined balance sheet at June 30, 2000 reflects the consummation of the Gothic acquisition as if it occurred on June 30, 2000. The unaudited pro forma combined financial data should be read in conjunction with the notes thereto and the historical financial statements of Chesapeake and Gothic, including the notes thereto, which are included in this proxy statement/prospectus.

The unaudited pro forma combined financial statements do not purport to be indicative of the results of operations that would actually have occurred if the transaction described had occurred as presented in such statements or that may occur in the future. In addition, future results may vary significantly from the results reflected in such statements due to general economic conditions, oil and gas commodity prices, Chesapeake's ability to successfully integrate the operations of Gothic with its current business and several other factors, many of which are beyond Chesapeake's control. See "Risk Factors" beginning on page 12.

The Gothic acquisition will be accounted for using the purchase method. After the acquisition, the purchase cost will be allocated to the Gothic assets and liabilities based on their respective fair values. The final allocation of the actual purchase price is subject to the final valuation of the acquired assets, but that allocation is not expected to differ materially from the preliminary allocation presented in these pro forma combined financial statements.

CHESAPEAKE ENERGY CORPORATION  
 UNAUDITED PRO FORMA COMBINED BALANCE SHEET  
 AS OF JUNE 30, 2000  
 (IN THOUSANDS)

	HISTORICAL		PRO FORMA	
	CHESAPEAKE	GOTHIC	ADJUSTMENTS	AS ADJUSTED
ASSETS				
Current assets.....	\$ 103,769	\$ 18,791	\$ (919)(f)	\$ 121,641
Property, plant and equipment:				
Proved.....	2,422,373	269,380	94,648(a) 1,411(f)	2,787,812
Unproved.....	32,146	5,911	4,089(a)	42,146
Accumulated DD&A.....	(1,719,259)	(62,752)	62,752(a)	(1,719,259)
Net proved and unproved properties.....	735,260	212,539	162,900	1,110,699
Other, net.....	35,056	5,058	--	40,114
Total property, plant and equipment, net.....	770,316	217,597..	162,900	1,150,813
Other.....	106,897	9,738	(4,796)(a) (10,000)(a) (77,509)(b)	24,330
Total assets.....	\$ 980,982	\$ 246,126	\$ 69,676	\$ 1,296,784
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities.....	\$ 101,423	\$ 31,327	\$ 12,760(a) 3,240(j) (747)(f)	\$ 148,003
Long-term debt.....	983,230	315,958	(77,509)(b) (23,336)(f)	1,198,343
Deferred income tax liabilities.....	7,904	--	--	7,904
Other liabilities.....	8,405	3,274	--	11,679
Stockholders' equity:				
Preferred stock.....	77,852	50,252	(50,252)(a)	77,852
Common stock.....	1,433	187	(187)(a) 41(f) 40(a)	1,514
Paid-in capital.....	862,230	42,987	24,534(f) (42,987)(a) 1,500(a) 27,960(a)	916,224
Accumulated earnings (deficit).....	(1,045,984)	(197,859)	197,859(a) (3,240)(j)	(1,049,224)
Accumulated other comprehensive income (loss).....	(2,757)	--	--	(2,757)
Less treasury stock.....	(12,754)	--	--	(12,754)
Total stockholders' equity (deficit).....	(119,980)	(104,433)	155,268	(69,145)
Total liabilities and stockholders' equity (deficit).....	\$ 980,982	\$ 246,126	\$ 69,676	\$ 1,296,784

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

## CHESAPEAKE ENERGY CORPORATION

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
SIX MONTHS ENDED JUNE 30, 2000  
(IN THOUSANDS EXCEPT PER SHARE DATA)

	HISTORICAL		PRO FORMA	
	CHESAPEAKE	GOTHIC	ADJUSTMENTS	AS ADJUSTED
<b>REVENUES:</b>				
Oil and gas sales.....	\$187,514	\$ 31,863	\$ --	\$219,377
Oil and gas marketing sales.....	61,610	--	--	61,610
Well operations.....	--	1,356	(1,356)(i)	--
Total revenues.....	249,124	33,219	(1,356)	280,987
<b>OPERATING COSTS:</b>				
Production expenses and taxes.....	36,059	4,443	--	40,502
General and administrative.....	6,220	2,761	(1,356)(i)	7,625
Oil and gas marketing expenses.....	59,666	--	--	59,666
Oil and gas depreciation, depletion and amortization.....	49,360	9,625	5,531(c)	64,516
Depreciation and amortization of other assets.....	3,702	350	--	4,052
Total operating costs.....	155,007	17,179	4,175	176,361
<b>INCOME FROM OPERATIONS.....</b>	<b>94,117</b>	<b>16,040</b>	<b>(5,531)</b>	<b>104,626</b>
<b>OTHER INCOME (EXPENSE):</b>				
Interest and other income.....	2,859	50	--	2,909
Interest expense.....	(42,677)	(19,490)	6,015(h)	(56,152)
Total other income (expense).....	(39,818)	(19,440)	6,015	(53,243)
<b>INCOME (LOSS) BEFORE INCOME TAXES.....</b>	<b>54,299</b>	<b>(3,400)</b>	<b>484</b>	<b>51,383</b>
<b>INCOME TAX EXPENSE.....</b>	<b>1,463</b>	<b>--</b>	<b>194(d)</b>	<b>1,657</b>
<b>NET INCOME (LOSS).....</b>	<b>52,836</b>	<b>(3,400)</b>	<b>290</b>	<b>49,726</b>
Preferred stock dividends.....	(6,949)	(4,638)	4,638(g)	(6,949)
Gain on redemption of preferred stock.....	11,895	--	--	11,895
<b>NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS.....</b>	<b>\$ 57,782</b>	<b>\$ (8,038)</b>	<b>\$ 4,928</b>	<b>\$ 54,672</b>
<b>EARNINGS (LOSS) PER COMMON SHARE:</b>				
Basic.....	\$ 0.53			\$ 0.47
Assuming dilution.....	\$ 0.36			\$ 0.32
<b>WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING:</b>				
Basic.....	108,196			116,280(e)
Assuming dilution.....	146,285			154,369(e)

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

## CHESAPEAKE ENERGY CORPORATION

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 1999  
(IN THOUSANDS EXCEPT PER SHARE DATA)

	HISTORICAL		PRO FORMA	
	CHESAPEAKE	GOTHIC	ADJUSTMENTS	AS ADJUSTED
<b>REVENUES:</b>				
Oil and gas sales.....	\$280,445	\$ 52,967	\$ --	\$ 333,412
Oil and gas marketing sales.....	74,501	--	--	74,501
Well operations.....	--	2,657	(2,657)(i)	--
Total revenues.....	354,946	55,624	(2,657)	407,913
<b>OPERATING COSTS:</b>				
Production expenses and taxes.....	59,562	9,605	--	69,167
General and administrative.....	13,477	5,313	(2,657)(i)	16,133
Oil and gas marketing expenses.....	71,533	--	--	71,533
Oil and gas depreciation, depletion and amortization.....	95,044	20,444	11,679(c)	127,167
Depreciation and amortization of other assets.....	7,810	525	--	8,335
Total operating costs.....	247,426	35,887	9,022	292,335
<b>INCOME FROM OPERATIONS.....</b>	<b>107,520</b>	<b>19,737</b>	<b>(11,679)</b>	<b>115,578</b>
<b>OTHER INCOME (EXPENSE):</b>				
Interest and other income.....	8,562	942	--	9,504
Interest expense.....	(81,052)	(37,988)	11,505(h)	(107,535)
Total other income (expense).....	(72,490)	(37,046)	11,505	(98,031)
<b>INCOME (LOSS) BEFORE INCOME TAXES.....</b>	<b>35,030</b>	<b>(17,309)</b>	<b>(174)</b>	<b>17,547</b>
<b>INCOME TAX EXPENSE.....</b>	<b>1,764</b>	<b>--</b>	<b>(70)(d)</b>	<b>1,694</b>
<b>NET INCOME (LOSS).....</b>	<b>33,266</b>	<b>(17,309)</b>	<b>(104)</b>	<b>15,853</b>
Preferred stock dividends.....	(16,711)	(8,667)	8,667(g)	(16,711)
Gain on redemption of preferred stock.....	--	--	--	--
<b>NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS.....</b>	<b>\$ 16,555</b>	<b>\$(25,976)</b>	<b>\$ 8,563</b>	<b>\$ (858)</b>
<b>EARNINGS (LOSS) PER COMMON SHARE:</b>				
Basic.....	\$ 0.17			\$ (0.01)
Assuming dilution.....	\$ 0.16			\$ (0.01)
<b>WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING:</b>				
Basic.....	97,077			105,161(e)
Assuming dilution.....	102,038			110,122(e)

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

## NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL DATA

(a) Chesapeake will issue four million shares of common stock at an estimated \$7.00 per share and incur costs of approximately \$12.8 million (including \$6 million for estimated termination costs of Gothic employees) to acquire Gothic. In addition, Chesapeake's investment in Gothic preferred and common stock, which has a carrying value of \$10 million, and its investment in Gothic senior discount notes, which have a carrying value of \$77.5 million, are included in the allocation of purchase price. Chesapeake estimates that the fair value of the Gothic debt equals Gothic's carrying value. The purchase price also gives effect to the estimated fair value of out-of-the-money Gothic warrants to be assumed by Chesapeake. Below is a summary of the purchase price allocation to the estimated fair value of the assets acquired and liabilities assumed (\$ in 000's):

Issuance of common stock.....	\$ 28,000
Investment in Gothic senior discount notes.....	77,509
Investment in Gothic preferred and common stock.....	10,000
Fair value of Gothic warrants.....	1,500
Other acquisition costs.....	12,760
	-----
Purchase price.....	\$129,769
	=====

	GOTHIC BOOK VALUE	ESTIMATED FAIR VALUE	PRO FORMA ADJUSTMENT
	-----	-----	-----
Current assets.....	\$ 18,791	\$ 18,791	\$ --
Property and equipment -- proved properties.....	269,380	364,028	94,648
Property and equipment -- unproved properties.....	5,911	10,000	4,089
Accumulated DD&A.....	(62,752)	--	62,752
Other property and equipment.....	5,058	5,058	--
Other assets.....	9,738	4,942	(4,796)
Current liabilities.....	(31,327)	(31,327)	--
Debt, less investment in Gothic discount notes.....	(238,449)	(238,449)	--
Other liabilities.....	(3,274)	(3,274)	--
	-----	-----	-----
	\$ (26,924)	\$ 129,769	\$156,693
	=====	=====	=====

(b) To eliminate Chesapeake's \$77.5 million investment in Gothic's senior discount notes which were acquired in June 2000.

(c) To record DD&A expense of oil and gas properties using a rate of \$0.80 per mcf. This combined rate reflects the impact of the allocation of purchase price to Gothic's proved oil and gas properties.

(d) To record the tax effects of the pro forma adjustments at a statutory rate of 40%.

(e) Basic and diluted earnings per share have been calculated assuming the transaction had been consummated at the beginning of the period and is calculated as follows (in 000's):

	SIX MONTHS ENDED JUNE 30, 2000	YEAR ENDED DECEMBER 31, 1999
	-----	-----
Chesapeake's basic shares outstanding (as reported)....	108,196	97,077
Issuance of common stock to Gothic -- merger consideration.....	4,000	4,000
Issuance of common stock -- acquisition of Gothic debt.....	4,084	4,084
	-----	-----
Basic shares outstanding -- as adjusted.....	116,280	105,161
	=====	=====
Chesapeake's diluted shares outstanding (as reported)...	146,285	102,038
Issuance of common stock to Gothic -- merger consideration.....	4,000	4,000
Issuance of common stock -- acquisition of Gothic debt.....	4,084	4,084
	-----	-----
Diluted shares outstanding -- as adjusted.....	154,369	110,122
	=====	=====

(f) To record Chesapeake's acquisition of \$3.2 million of Gothic's 14 1/8% senior secured discount notes (face value of \$4.0 million) on August 31, 2000 and \$20.15 million of Gothic's 11 1/8% senior secured notes at 107%, plus accrued interest of \$747,000, on September 1, 2000. Consideration given for the 14 1/8% discount notes consisted of 389,378 shares of Chesapeake common stock (valued at \$5.825 per share) plus cash of \$919,000. Consideration given for the 11 1/8% senior secured notes was 3,694,939 shares of Chesapeake common stock (valued at \$6.04 per share).

(g) To eliminate dividends on Gothic's preferred stock held by Chesapeake.

(h) To eliminate interest expense and amortization costs related to the senior discount notes and senior secured notes acquired by Chesapeake.

(i) To reclassify overhead reimbursements recognized by Gothic as operator of certain oil and gas properties and reported as well operations revenue. These reimbursements have been reclassified as a reduction to general and administrative expenses to conform with Chesapeake's presentation of similar reimbursements.

(j) To record the initial financing fees incurred by Chesapeake for the standby credit facility. Chesapeake believes the standby credit facility will not be utilized, and therefore the associated fees will be expensed when the holders' change-of-control put options expire. If, however, the standby credit facility is utilized, Chesapeake would incur an additional \$2.75 million in financing costs and the total financing costs of \$6 million would be deferred and amortized over the twenty-six month term of the facility. Assuming the standby credit facility is utilized to (a) purchase the outstanding 11 1/8% Gothic senior secured notes and (b) replace Chesapeake's current line of credit, the pro forma results of operations would reflect a decrease in interest expense of approximately \$0.8 million and \$1.1 million for the six months ended June 30, 2000 and the year ended December 31, 1999, respectively.

(k) Estimated total pro forma proved reserves at June 30, 2000 were as follows (in MMcfe):

Chesapeake.....	1,313,264
Gothic.....	321,670
	-----
As adjusted.....	1,634,934
	=====

## GOTHIC ENERGY CORPORATION SPECIAL MEETING

This proxy statement/prospectus and the accompanying form of proxy are being furnished to Gothic shareholders in connection with the solicitation of proxies by Gothic's board of directors to be used at a special meeting of shareholders to be held on \_\_\_\_\_, 2000, and at any adjournments or postponements of the meeting. All holders of record of Gothic common stock and Gothic preferred stock at the close of business on \_\_\_\_\_, 2000 are entitled to notice of the meeting. Only holders of record of Gothic common stock on such date are entitled to vote at the special meeting. This proxy statement/prospectus and the accompanying proxy card are first being mailed to Gothic shareholders beginning on or about \_\_\_\_\_, 2000.

## TIME, DATE AND PLACE

The special meeting will be held at 10:00 a.m. local time, on \_\_\_\_\_, 2000, at the Doubletree Hotel at Warren Place, 19th Floor, 6120 South Yale Avenue, in Tulsa, Oklahoma.

## PURPOSE OF THE SPECIAL MEETING

At the Gothic special meeting, and any adjournment or postponement thereof, Gothic's shareholders will be asked to consider and vote upon:

- a proposal to approve the merger and the merger agreement, and
- such other matters as may properly be brought before the special meeting and any adjournment or postponement thereof.

In the merger, Chesapeake Merger 2000 Corp., a wholly-owned subsidiary of Chesapeake, will merge with and into Gothic and each outstanding share of Gothic common stock, other than shares held by Chesapeake and by shareholders demanding appraisal rights, will be converted into a number of shares of Chesapeake common stock determined as described under "Material Terms of the Merger Agreement -- The Merger -- Share Conversion." Chesapeake will receive no merger consideration with respect to Gothic common stock it owned as of September 8, 2000 or which is issued to Chesapeake upon the conversion of Gothic preferred stock it owns.

As of the date of this proxy statement/prospectus, Gothic's board of directors does not know of any business to be presented at the special meeting other than the merger proposal. If any other matters should properly come before the special meeting, it is intended that the shares represented by proxies will be voted with respect to such matters in accordance with the judgment of the persons voting such proxies.

## RECORD DATE; VOTING RIGHTS; QUORUM; REQUIRED VOTE

Gothic's board of directors has fixed the close of business on \_\_\_\_\_, 2000 as the record date for Gothic's shareholders to be entitled to notice of and to vote at the special meeting.

Only holders of record of shares of Gothic common stock and Gothic preferred stock at the close of business on the record date are entitled to notice of the special meeting. Each holder of record of Gothic common stock as of the record date is entitled to cast one vote per share on all matters submitted to Gothic's shareholders.

At the close of business on September 7, 2000, there were 165 holders of record of Gothic common stock and Chesapeake was the sole holder of record of Gothic preferred stock. On the record date, there were 23,305,076 million shares of Gothic common stock outstanding and entitled to vote at the special meeting.

As of the record date, the directors and executive officers of Gothic beneficially owned approximately 14.6% of the outstanding Gothic common stock. For additional information on the ownership of Gothic common stock by Gothic directors and executive officers, see "Beneficial Ownership of Common Stock --

Gothic" beginning on page 90. In connection with the merger agreement, Michael Paulk, Steven P. Ensz, Brian Bayley and John Fleming have granted Chesapeake irrevocable proxies to vote all shares of Gothic common stock they hold. These proxies will terminate on the effective date of the merger or if the merger agreement is terminated. In addition, as of the record date, Chesapeake held approximately 2,394,125 shares of Gothic common stock. Chesapeake has advised Gothic that it intends to vote all of these shares, or approximately 10.3% of the total votes entitled to be cast at the special meeting, in favor of the proposal. Accordingly, the votes to be cast pursuant to the irrevocable proxies and the votes to be cast by Chesapeake with respect to the shares held by it aggregate approximately 24.9% of the total votes entitled to be cast with respect to the merger.

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Gothic stock entitled to vote is necessary to constitute a quorum at the special meeting. The affirmative vote of the holders of a majority of the outstanding shares of Gothic common stock is required to approve and adopt the merger proposal.

Votes cast by proxy or in person at the Gothic special meeting will be tabulated and will determine whether or not a quorum is present. Abstentions will be treated as shares present in determining whether Gothic has a quorum for the special meeting, but abstentions will have the same effect as a vote against adoption of the merger agreement. If a broker or other record holder or nominee indicates on a proxy that it does not have direction or authority to vote certain shares, those shares will be considered present at the special meeting for purposes of determining a quorum but will have the same effect as a vote against adoption of the merger agreement. A broker or other record holder or nominee will vote shares of Gothic stock only if the holder of such shares provides instructions on how to vote by following the instructions provided by such broker, record holder or nominee.

#### PROXIES; REVOCATION

A proxy card is enclosed for use by Gothic shareholders. Gothic's board of directors requests that shareholders SIGN AND RETURN THE PROXY CARD IN THE ACCOMPANYING ENVELOPE. No postage is required if mailed within the United States. If you have questions or requests for completing and submitting proxy cards, please contact Steven P. Ensz at the following address and telephone number:

Gothic Energy Corporation  
Two Warren Place  
6120 South Yale Avenue, Suite 1200  
Tulsa, Oklahoma 74136  
(918) 749-5666

Neither the laws of the State of Oklahoma, the jurisdiction in which Chesapeake and the merger subsidiary are incorporated, nor the rules of the New York Stock Exchange require that the merger or the issuance of the Chesapeake common stock pursuant to the merger be approved by Chesapeake's shareholders.

All properly executed proxies that are not revoked will be voted at the special meeting as instructed on those proxies. A shareholder who executes and returns a proxy may revoke it at any time before it is voted, but only by executing and returning a proxy bearing a later date, by giving written notice of revocation to an officer of Gothic, or by attending the special meeting and voting in person. A proxy that has been properly executed, but has otherwise been left blank, will be voted for the adoption of the merger agreement, unless the proxy is revoked before the vote is taken.

#### SOLICITATION OF PROXIES; EXPENSES

In connection with the special meeting, proxies are being solicited by, and on behalf of, the Gothic board of directors. Gothic will bear the cost of the solicitation of proxies from its stockholders; however, Chesapeake has agreed in the merger agreement to bear one-half of the costs of filing, printing and mailing this document and filing fees of the Securities and Exchange Commission. In addition to the



solicitation of proxies by use of mail, the directors, officers and employees of Gothic may solicit proxies from stockholders personally or by telephone, facsimile or other means of communication. Such directors, officers and employees will not be additionally compensated for such solicitation but may be reimbursed for out-of-pocket expenses incurred in connection with the solicitation. In addition, Gothic has engaged The Altman Group, Inc. for a fee of \$20,000, plus expenses, to aid in the solicitation of proxies. Arrangements will also be made with brokerage houses, banks, fiduciaries and other custodians for the forwarding of solicitation material to the beneficial owners of stock held of record by such persons, and Gothic will reimburse such persons for their reasonable out-of-pocket expenses in connection with the solicitation.

#### CONVERSION OF CERTIFICATES

You should not send in any stock certificates with your proxy cards. As soon as practicable after the consummation of the merger, a transmittal form will be sent to former shareholders of Gothic who hold their stock in their own name with instructions for receiving Chesapeake common stock. Broker-dealers who hold stock for a shareholder in "street name" will execute the conversion from Gothic common stock to Chesapeake common stock for that shareholder.

#### INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP serves as Gothic's independent auditors. It is expected that a representative of PricewaterhouseCoopers LLP will be at the special meeting to answer questions by shareholders and will have the opportunity to make a statement if so desired.

## THE MERGER

This section, as well as the next section "Material Terms of the Merger Agreement," describe the material aspects of the proposed merger, including the merger agreement. These descriptions are qualified in their entirety by reference to the merger agreement, which is attached as Annex A to this document, and to the other agreements and documents that are described in this document and that are filed as exhibits to the registration statement of which this document forms a part. YOU SHOULD READ THE MERGER AGREEMENT IN ITS ENTIRETY AS IT IS THE LEGAL DOCUMENT THAT GOVERNS THE MERGER.

## BACKGROUND OF THE MERGER

In April 1998, Gothic recapitalized its outstanding debt and preferred equity. In this recapitalization Gothic, among other things,

- organized Gothic Production Corporation as a wholly-owned subsidiary and transferred all of Gothic's natural gas and oil properties to Gothic Production;
- caused Gothic Production to issue, with Gothic's guaranty, \$235 million principal amount of 11 1/8% senior secured notes due May 1, 2005; and
- issued approximately \$60 million initial principal amount, accreting to \$104 million principal amount at May 1, 2002, of 14 1/8% senior secured discount notes due May 1, 2006.

As part of the recapitalization, Gothic also entered into a series of transactions with Chesapeake. As part of these transactions, Gothic

- sold to Chesapeake 50,000 shares of its 12% Series B senior redeemable preferred stock with an aggregate liquidation value of \$50 million and a warrant to purchase 2,439,246 shares of its common stock for \$0.01 per share;
- assigned a 50% interest in substantially all of Gothic's undeveloped leasehold, subject to Chesapeake's obligation to reassign in 2003 interests in any acreage which had not been the subject of development, and entered into a participation agreement with Chesapeake to provide for the development of the undeveloped acreage; and
- sold to Chesapeake a 50% interest in its producing Arkoma basin natural gas and oil properties for approximately \$20 million.

When issued, the Series B preferred stock had an aggregate liquidation preference of \$50 million and a dividend rate equal to 12% of the aggregate liquidation preference payable in additional shares of Series B preferred stock, or, after April 1, 2000 at Gothic's option, in cash. After April 30, 2000, the Series B preferred stock became convertible into the number of shares of Gothic common stock determined by dividing the liquidation preference by the greater of \$2.04 or the fair market value of a share of Gothic common stock on the date of conversion. The conversion right may not be exercised, however, if the conversion would cause any holder or group to own more than 19.9% of Gothic's outstanding common stock. To date, all dividends on the Series B preferred stock have been paid in kind and on September 1, 2000, Chesapeake held approximately 64,723 shares of Series B preferred stock.

Gothic used the net proceeds from the recapitalization to (1) repay \$56.5 million due June 30, 1998 under a secured bridge note and \$149.9 million under a revolving loan, (2) redeem its outstanding Series A preferred stock for \$38.7 million, and (3) redeem its outstanding 12 1/4% senior notes for \$102.3 million. Gothic had incurred these obligations to finance its acquisition of oil and natural gas assets from Amoco Corporation in January 1998. The purchase price for the Amoco acquisition consisted of (a) \$237.5 million in cash, (b) warrants to purchase 1.5 million shares of Gothic common stock at an exercise price of \$3.00 per share, before anti-dilution adjustments, and (c) the transfer of producing properties having a value of less than \$1.8 million. The cash portion of the purchase price was financed with approximately \$216.4 million of bank borrowings and a portion of the proceeds from the issuance of

37,000 shares of Gothic's Series A preferred stock with an aggregate liquidation preference of \$37.0 million.

Following the completion of the recapitalization transactions, commodity prices for natural gas and oil began to decline. At the end of the quarter ended June 30, 1998, the price for natural gas was \$2.25 per Mcf and declined to approximately \$1.65 per Mcf by the end of October 1998. As a result of these declining prices, Gothic's asset value declined leading to a writedown of Gothic's asset values. Gothic recorded full cost ceiling writedowns in its financial statements in the quarters ended September 30, 1998 and December 31, 1998 in the amounts of \$34.0 million and \$42.0 million, respectively.

The declining natural gas and oil prices, and resulting lower cash flow levels, combined with the losses created by Gothic's asset write-downs, strained Gothic's financial resources. Because of this strain on its resources, Gothic was at risk of not being able to continue to expend funds for the development and exploitation of its undeveloped natural gas and oil interests.

As a result of these factors, Gothic's auditor's report for the year ended 1998 contained a going concern qualification. At the same time, Gothic's common stock traded below \$1.00 for an extended period of time, resulting in the delisting of the Gothic common stock from the Nasdaq SmallCap Market on May 26, 1999. The market value of Gothic's debt instruments suffered as well with both its senior secured notes and its senior discount notes trading at substantial discounts to par.

On August 17, 1999, Chesapeake exercised the common stock purchase warrant it received in April 1998 for 2,394,125 shares of Gothic's common stock. Chesapeake surrendered 45,121 warrants to Gothic as part of its cashless exercise of the common stock purchase warrant. Pursuant to the participation agreement entered into in April 1998, during the year ended December 31, 1999 and the six months ended June 30, 2000 Chesapeake elected to participate to the extent of 50% of Gothic's interest in the development of 29 and 15 non-producing properties, respectively, and did not participate in any acquired properties.

On September 13, 1999, Gothic announced it had retained CIBC World Markets Corp. to provide assistance in considering alternatives for restructuring its debt and equity capital. Gothic stated it was seeking financing alternatives intended to reduce its debt as well as raise new capital. Gothic intended to restructure its outstanding Series B preferred stock, all held by Chesapeake, and its discount notes in order to reduce their dilutive effect on Gothic's common equity. The terms of Gothic's Series B preferred stock provide for dividends payable in additional shares of Series B preferred stock or, since April 2000, in cash at Gothic's option. The discount notes increase in principal amount, in lieu of cash interest payments to \$104 million at May 1, 2002. Thereafter, the discount notes accrue interest at the rate of 14 1/8% per annum payable in cash semi-annually on May 1 and November 1. In an effort to eliminate the continuing erosion of Gothic's common equity by the payment of dividends in kind on the shares of preferred stock and accretion of the outstanding principal of its discount note indebtedness, Gothic had begun seeking to refinance these securities in the latter half of 1999.

Because of the reduced market prices for natural gas and oil throughout the latter half of 1998 and into 1999, and the resulting impact on Gothic's revenues and financial condition, Gothic was not able to refinance its preferred stock and discount notes. Gothic's existing capital structure, including specifically the Series B preferred stock and the discount notes, proved to be substantial impediments to raising new capital or exploring a sale of the company.

During the period of September through mid-December 1999, Gothic had various preliminary discussions with Chesapeake concerning the possibility of a sale or merger of Gothic to or with Chesapeake. As part of that process, on October 7, 1999, Chesapeake entered into a confidentiality agreement with Gothic wherein Gothic provided Chesapeake with financial, natural gas and oil reserve data and other information Chesapeake required in order to evaluate a possible transaction. At that time, Gothic and Chesapeake determined a transaction was impractical due to, among other things, limitations on Chesapeake's ability to incur debt under its existing indentures.

In early 2000, Gothic determined it needed to restructure and reorganize its liabilities and amend the participation agreement with Chesapeake in order to achieve the financial flexibility it needed to develop its asset base. As a result, Gothic commenced discussions with holders of its 14 1/8% senior discount notes and with Chesapeake concerning the overall restructure of Gothic's obligations. Because of the rights of Chesapeake and others to propose the drilling of wells on Gothic's undeveloped acreage, combined with their ability to obtain ownership of Gothic's interest if Gothic did not participate, Gothic believed, in early 2000, that it could be at risk to lose a portion of its undeveloped assets due to its lack of liquidity.

On February 29, 2000, Gothic and Chesapeake entered into an agreement to grant to Gothic the option to substantially revise the participation agreement and for Gothic to redeem its Series B preferred stock and common stock held by Chesapeake. The exercise of the option issued to Gothic by Chesapeake was subject to a number of conditions including the approval of Gothic's lenders and confirmation by the United States Bankruptcy Court of a plan of reorganization covering Gothic.

As part of the granting of the foregoing option to Gothic, the amendments to the participation agreement and the redemption of the securities owned by Chesapeake, Gothic and Chesapeake agreed, among other matters, to the following terms:

- Extending the participation agreement for an additional three years through April 30, 2006 and excluding a portion of the state of Texas from the agreement;
- Granting a right of first refusal to Chesapeake on any property dispositions made by Gothic, other than a sale of substantially all of Gothic's assets to an unaffiliated third party through a merger, reorganization, consolidation or the sale of all of Gothic's equity ownership;
- The segregation of the parties' first development rights and the assumption by Chesapeake of the operation of 28 wells drilled pursuant to the participation agreement;
- The permanent assignment to Chesapeake of the 50% undeveloped leasehold interest originally assigned to Chesapeake in April, 1998 that was subject to reassignment to Gothic by Chesapeake on April 30, 2003; and
- The redemption by Gothic of its entire issue of Series B preferred stock and of approximately 2.4 million shares of Gothic's common stock.

On June 5, 2000 Gothic entered into restructure agreements with the holders of approximately 90% of the principal amount of its outstanding discount notes to convert those notes into shares of its common stock. The restructure agreements provided that the conversion of the notes and the other restructurings of its balance sheet would be effected through a pre-negotiated plan of reorganization under chapter 11 of the federal bankruptcy code. The plan of reorganization would have provided that the holders of all outstanding Gothic discount notes would convert their notes into Gothic common stock representing approximately 94% of Gothic's equity. Under the proposed plan, Gothic's common stockholders would have received approximately 6% of Gothic's equity following the reorganization.

The plan of reorganization also provided for offerings of additional shares of common stock to the holders of the Gothic discount notes and the holders of Gothic's common stock to participate in the sale of up to \$15.0 million of additional shares of Gothic common stock. If fully subscribed by the holders of the discount notes and common stock, the post-confirmation ownership of Gothic by the holders of Gothic common stock would have represented approximately 9% of Gothic's outstanding equity.

On June 6, 2000 Chesapeake notified Gothic it intended to contact the holders of the Gothic discount notes for the purpose of negotiating a purchase of some or all of the discount notes. Chesapeake asked that Gothic confirm its understanding that such contact would not violate any standstill or confidentiality provisions in effect. Chesapeake also confirmed that if successful in purchasing any of the discount notes, it would be bound by and assume the provisions agreed to in the June 5, 2000 restructure agreements with the holders of the Gothic discount notes. On or about June 27, 2000, Chesapeake purchased approximately

96% of the outstanding discount notes subject to the terms of the restructure agreements for a combination of cash and Chesapeake common stock.

On June 28, 2000, representatives of Gothic and Chesapeake met to discuss Chesapeake's intentions with respect to its purchase of Gothic's discount notes. The conversations focused on the restructure agreements and alternative methods to maximize the value to existing Gothic equity owners. The parties determined that a merger with Chesapeake, in which a fixed number of Chesapeake shares would be exchanged for Gothic's outstanding common shares, would provide more value to Gothic's shareholders than would the anticipated restructuring plan.

The basic terms of the merger were agreed to over the next two days. The proposed merger was approved by the Gothic board of directors and the Chesapeake board of directors on June 29, 2000, and the proposed terms of the merger were reflected in a letter of intent executed by Chesapeake and Gothic on June 30, 2000. The proposed merger was announced the same day.

Subsequent to the execution of the letter of intent the senior officers of Gothic and the senior officers of Chesapeake negotiated the terms of the definitive merger agreement. Contemporaneously with the negotiation of the merger agreement, Chesapeake also negotiated a credit facility to fund the purchase of any of the Gothic Production 11 1/8% senior secured notes which might be tendered under the change of control provisions of the indenture. The parties also negotiated, as part of the merger, the assumption by Chesapeake of all outstanding warrants and options in accordance with the agreements controlling such warrants and options and the severance arrangements with the employees of Gothic.

On August 9, 2000, Chesapeake's board of directors reviewed the merger agreement and the information provided by the advisors to the board of directors and approved the merger. On September 22, 2000, Chesapeake's board of directors ratified the terms of the merger agreement. On September 6, 2000, Gothic's board of directors reviewed the merger agreement and the information provided by the advisors to the board of directors and approved the terms of the merger agreement. On September 8, 2000, representatives of Gothic and Chesapeake executed the merger agreement.

In July 2000, in a transaction considered to be unrelated to the merger, Chesapeake exercised its first refusal rights under the amended participation agreement and purchased from Gothic for \$1.6 million approximately 200 primarily non-operated wells on the basis of the terms theretofore negotiated by Gothic with a party not affiliated with either Gothic or Chesapeake.

#### GOTHIC'S REASONS FOR THE MERGER; RECOMMENDATION OF GOTHIC'S BOARD OF DIRECTORS

Gothic's board of directors has approved the merger and the merger agreement and has determined that these transactions are in the best interests of Gothic and its shareholders. Gothic's board of directors recommends that Gothic's shareholders approve the merger and the merger agreement. In its deliberations and in making its determination and recommendation, the Gothic board of directors consulted with CIBC World Markets Corp. and with Gothic's outside counsel.

Gothic's board of directors considered a number of factors, relating to Gothic, which it concluded made the merger agreement with Chesapeake advisable, including the following:

- Gothic's outstanding discount notes would accrete in principal amount to \$104 million at May 1, 2002 and thereafter Gothic would be required to pay cash interest on its discount notes of approximately \$14.7 million per annum. Based on Gothic's projections, Gothic believed it would have difficulty meeting these debt service requirements.
- On May 27, 1999, Gothic's common stock was no longer quoted on the Nasdaq SmallCap Market, and since then its shares traded as low as \$0.16 per share.
- Gothic lacked the financial flexibility to expand and accelerate its drilling program.

- With the approach of the requirement to make cash interest payments on its discount notes, Gothic's borrowing availability under its bank credit facility had been reduced from \$25 million, as of April 30, 1998, to \$15 million as of April 1, 2000.
- The potential forced pooling of certain of Gothic's undeveloped natural gas and oil properties threatened Gothic's asset base.
- The report of Gothic's independent accountants for the year ended December 31, 1999 contained an explanatory paragraph resulting from Gothic's recurring losses from operations and working capital and net capital deficiency that raised substantial doubt in the opinion of the independent accountants about Gothic's ability to continue as a going concern.
- It would be difficult to enter into a transaction with another acquirer other than Chesapeake because of Gothic's highly leveraged and complex capital structure which would require a potential acquirer to negotiate with both Gothic and the holders of its discount notes and senior secured notes.

Gothic's board of directors also considered a number of other factors relating to Chesapeake, which it concluded also made the merger agreement with Chesapeake advisable, including the following:

- The Gothic shareholders would receive as merger consideration shares of Chesapeake common stock with a market valuation, as of June 29, 2000, based on the merger exchange ratio, of approximately \$1.34 per Gothic common share, whereas the average bid price of the Gothic shares for the thirty days preceding June 29, 2000 was approximately \$0.32 per share.
- The strategic benefits to Chesapeake from the merger, when compared to other potential acquirers, would be significant due to the substantial overlap in Gothic's and Chesapeake's oil and natural gas properties.
- Chesapeake and Gothic anticipate annual operating and administrative cost savings as a result of the merger.
- By completing the merger, Chesapeake would save approximately \$14.7 million in cash interest payments, commencing in May, 2002, from the extinguishment of the Gothic discount notes.
- Chesapeake's financial capacity should permit an accelerated drilling program.
- The merger provides greater value to Gothic's shareholders compared to the restructuring and reorganization of Gothic under the previously proposed plan of reorganization.
- Chesapeake's common stock is traded actively on the New York Stock Exchange and provides liquidity to the Gothic shareholders receiving Chesapeake shares in the merger.

#### OPINION OF GOTHIC'S FINANCIAL ADVISOR

At the September 6, 2000 meeting of Gothic's board of directors, CIBC World Markets Corp. delivered its oral opinion, subsequently confirmed in writing in an opinion dated as of September 8, 2000, to Gothic's board of directors, to the effect that, as of that date and based upon the assumptions made, matters considered and limits of review set forth in its opinion, the exchange ratio, as defined in the merger agreement, was fair to the holders of Gothic common stock, excluding those shares already owned by Chesapeake, from a financial point of view.

THE FULL TEXT OF CIBC'S OPINION, WHICH SETS FORTH THE ASSUMPTIONS MADE, MATTERS CONSIDERED AND CERTAIN LIMITATIONS ON THE SCOPE OF REVIEW UNDERTAKEN BY CIBC, IS ATTACHED AS ANNEX B TO THIS PROXY STATEMENT/PROSPECTUS. WE URGE YOU TO READ THE CIBC OPINION IN ITS ENTIRETY. THE CIBC OPINION WAS PROVIDED FOR THE USE AND BENEFIT OF GOTHIC'S BOARD OF DIRECTORS IN ITS EVALUATION OF THE MERGER, WAS DIRECTED ONLY TO THE FAIRNESS TO THE HOLDERS OF THE GOTHIC COMMON STOCK OF THE EXCHANGE RATIO PURSUANT TO THE MERGER AGREEMENT FROM A FINANCIAL POINT OF VIEW, EXCLUDING THOSE SHARES ALREADY OWNED BY CHESAPEAKE, AND DOES NOT CONSTITUTE A RECOMMENDATION AS TO HOW ANY SHAREHOLDER SHOULD VOTE WITH

RESPECT TO THE MERGER OR ANY OTHER MATTERS RELATING TO THE MERGER. THIS SUMMARY OF THE CIBC OPINION IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF THE CIBC OPINION.

In arriving at its opinion, CIBC, among other things:

- (a) reviewed the merger agreement;
- (b) reviewed Chesapeake's audited financial statements for the fiscal years ended December 31, 1998 and 1999 and the unaudited financial statements for the six months ended June 30, 2000;
- (c) held discussions with senior management of Chesapeake with respect to the business and prospects for future growth of Chesapeake;
- (d) reviewed the historical market prices and trading volume of both Chesapeake and Gothic common stock;
- (e) reviewed Gothic's audited financial statements for the fiscal years ended December 31, 1998 and 1999 and the unaudited financial statements for the six months ended June 30, 2000;
- (f) reviewed financial projections of Gothic prepared by Gothic's management;
- (g) held discussions with senior management of Gothic with respect to the business and prospects for future growth of Gothic;
- (h) reviewed and analyzed certain publicly available financial data for certain companies CIBC deemed comparable to Gothic;
- (i) performed discounted cash flow analyses of Gothic using certain assumptions of future performance provided to CIBC by the management of Gothic;
- (j) reviewed and analyzed certain publicly available financial information for transactions that CIBC deemed comparable to the merger;
- (k) reviewed public information concerning Gothic; and
- (l) performed such other analyses and reviewed such other information as CIBC deemed appropriate.

In rendering its opinion, CIBC relied upon and assumed, without independent verification or investigation, the accuracy and completeness of all of the financial and other information that was publicly available or provided to CIBC by Gothic and Chesapeake and their respective employees, representatives and affiliates. With respect to forecasts of future financial condition and operating results of Gothic provided to CIBC, CIBC assumed at the direction of Gothic's management, without independent verification or investigation, that such forecasts were reasonably prepared on bases reflecting the best available information, estimates and judgment of Gothic's management. CIBC neither made nor obtained any independent evaluations or appraisals of the assets or the liabilities of Gothic or affiliate entities. CIBC did not express any opinion as to the underlying valuation, future performance or long term viability of Gothic following the merger, or the price at which Chesapeake's common stock will trade subsequent to the merger. CIBC was not asked to consider, and its opinion does not address, the relative merits of the merger as compared to any alternative business strategies that might exist for Gothic or the effect of any other transaction in which Gothic might engage. CIBC's opinion was based on the information available to CIBC and general economic, financial and stock market conditions and circumstances as they existed and could be evaluated by CIBC on the date thereof. In addition, CIBC further assumed that the merger would qualify as a tax-free reorganization for U.S. federal income tax purposes.

The following is a summary of certain financial and comparative analyses performed by CIBC in arriving at its opinion. Some of these summaries of financial analyses include information presented in tabular format. In order to understand fully the financial analyses used by CIBC, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses.

Historical Exchange Ratio Analysis. CIBC reviewed the per share daily closing market price and volume movements of Gothic common stock and Chesapeake common stock for various time periods ending on August 28, 2000. CIBC also calculated the implied value of the merger consideration, as defined in the merger agreement, per share of Gothic common stock by multiplying 4.0 million by the average closing trading prices of Chesapeake stock for the one month, three month and six month trading periods preceding August 28, divided by the Gothic aggregate number, as defined in the merger agreement. The analysis resulted in the following values of the merger consideration received per share of Gothic common stock for the periods indicated.

PERIOD ENDING AUGUST 28, 2000	MERGER CONSIDERATION VALUE	GOTHIC ACTUAL VALUE	PREMIUM
-----	-----	-----	-----
Preceding 1 month.....	\$1.32	\$1.19	10.9%
Preceding 3 months.....	\$1.26	\$0.87	44.8%
Preceding 6 months.....	\$0.97	\$0.60	61.7%

Contribution Analysis. CIBC analyzed the relative contributions of Gothic and Chesapeake to the pro forma combined company based on selective projected financial data. CIBC compared the relative contribution of Gothic to certain financial data for the pro forma combined company, including the following:

GOTHIC CONTRIBUTION	2001
-----	----
1. Production (MMcfe).....	15.8%
2. Revenues.....	13.9%
3. EBITDA.....	16.6%

Pro Forma Combined Accretion/Dilution Analysis. CIBC analyzed the pro forma effect of the merger on Chesapeake's estimated earnings per share and cash flow per share in fiscal years 2000 and 2001, based on estimates provided by Gothic and publicly available research analysts' estimates for Chesapeake. Based on the exchange ratio in the merger, this analysis indicated that, without synergies, the proposed merger would be accretive to Chesapeake's earnings per share and cash flow per share in fiscal 2000 and 2001. The actual results achieved by the combined company may vary from projected results, and the variations may be material.

Comparable Public Companies Analysis. Using publicly available information, CIBC compared certain financial and operating information and ratios for Gothic with corresponding financial and operating information and ratios for the following six companies in lines of business believed to be generally comparable to those of Gothic:

- Belco Oil & Gas Corporation
- Bellwether Exploration Co.
- Comstock Resources, Inc.
- HS Resources Inc.
- Key Production Company
- Swift Energy Company

The analysis indicated that:

- the ratio of the aggregate value, meaning the market value of equity plus total debt and preferred stock minus cash, to earnings before interest, taxes, depreciation and amortization, which is referred to as EBITDA, would be estimated to range from 3.4x to 7.2x for 2000, with an average of 5.2x and an adjusted average of 5.1x, and would be estimated to range from 2.8x to 6.2x for 2001, with an average of 4.9x and an adjusted average of 5.1x; and



- the ratio of the price to cash flow would be estimated to range from 1.9x to 4.6x for 2000, with an average of 3.7x and an adjusted average of 3.9x, and would be estimated to range from 1.5x to 4.7x for 2001, with an average of 3.5x and an adjusted average of 3.7x.

CIBC then applied the range of multiples for the selected companies to the corresponding data of Gothic. This analysis indicated an implied equity reference range for Gothic common stock of less than \$0.00 to approximately \$2.40, with an average of less than \$0.00 per share.

Comparable Transactions Analysis. CIBC reviewed certain publicly available information regarding 25 business combinations in the oil and gas exploration and production industry since January 1, 1999. CIBC estimated a reference range for the transactions which indicated that the implied value per Mcfe of proved reserves ranged from \$0.48 to \$1.40, with an average of \$0.78, compared to an estimate of \$1.09 per Mcfe of proved reserves for the Gothic-Chesapeake transaction.

CIBC also reviewed certain publicly available information regarding 31 business combinations based on asset transactions in the oil and gas exploration and production industry since January 1, 1999. CIBC estimated a reference range for the transactions which indicated that the implied value per Mcfe ranged from \$0.47 to \$1.55, with an average of \$0.88, compared to an estimate of \$1.09 for the Gothic-Chesapeake transaction.

Discounted Cash Flow Analysis. CIBC performed a discounted cash flow analysis for Gothic using financial forecasts provided by Gothic. CIBC calculated a discounted cash flow analysis for Gothic as of July 1, 2000, assuming discount rates ranging from 10% to 20%. After deducting debt from, and adding back cash to, the present value of free cash flows, this analysis produced an implied per common share equity value for Gothic of less than \$0.00.

The summary set forth above does not purport to be a complete description of the analyses performed by CIBC in arriving at its opinion. Arriving at a fairness opinion is a complex process not necessarily susceptible to partial analysis or summary description. CIBC believes that its analyses must be considered as a whole and that selecting portions of analyses and of the factors considered by it, without considering all such factors and analyses, could create a misleading view of the processes underlying its opinion. CIBC did not assign relative weights to any of its analyses in preparing its opinion. The matters considered by CIBC in its analyses were based on numerous macroeconomic, operating and financial assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond Gothic's and Chesapeake's control and involve the application of complex methodologies and educated judgment. Any estimates incorporated in the analyses performed by CIBC are not necessarily indicative of actual past or future results or values, which may be significantly more or less favorable than such estimates. Estimated values do not purport to be appraisals and do not necessarily reflect the prices at which businesses or companies may be sold in the future, and such estimates are inherently subject to uncertainty. None of the comparable companies used in the comparable public companies analysis described above is identical to Gothic or Chesapeake, and none of the comparable transactions used in the comparable transactions analysis described above is identical to the merger. Accordingly, an analysis of publicly traded comparable companies and transactions is not mathematical; rather it involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could affect the public trading value of the comparable companies or company to which they are being compared.

Gothic's board of directors selected CIBC to act as its financial advisor on the basis of the reputation of CIBC as an internationally recognized investment banking firm with substantial expertise in transactions similar to the merger and because it is familiar with Gothic and its business. As part of its financial advisory business, CIBC is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions and valuations for estate, corporate and other purposes. CIBC has acted as a financial advisor to Gothic's board of directors in connection with the merger and will receive a fee for its services. In addition, CIBC has performed investment banking and other services for Gothic and has been compensated for such services. In the ordinary course of business, CIBC or its

affiliates may trade in the debt and equity securities of Gothic and Chesapeake for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

The terms of the engagement of CIBC by the board of directors are set forth in a letter dated July 15, 1999 and a series of amendments dated October 18, 1999 and January 24 and July 19, 2000. Pursuant to the terms of this engagement and based on the current trading value of Chesapeake's common stock, Gothic has agreed to pay to CIBC a fee of approximately \$4.0 million upon the closing of the merger. In addition to this compensation, Gothic has also agreed to reimburse CIBC for its reasonable out-of-pocket expenses, including the fees of its legal counsel, and to indemnify CIBC and certain related persons from and against certain liabilities in connection with its engagement, including certain liabilities under the federal securities laws, arising out of its engagement.

#### CHESAPEAKE'S REASONS FOR THE MERGER

Chesapeake's board of directors has approved the merger and the merger agreement and has determined that these transactions are in the best interests of Chesapeake and its shareholders. In reaching its decision, Chesapeake's board of directors consulted with Chesapeake's legal and financial advisors as well as Chesapeake's management. The Chesapeake board of directors considered a number of factors, including the following:

- Adds to core operating area. Gothic's producing properties are located almost exclusively in Chesapeake's core Mid-Continent operating area.
- Increases natural gas concentration. The acquisition will increase Chesapeake's proved reserves by an estimated 25%, and approximately 88% of the acquired proved reserves will be natural gas.
- Expected savings. Because Chesapeake presently has an interest in a significant number of Gothic's oil and gas properties, Chesapeake expects to generate substantial annual savings from reduced general administrative and lease operating expenses, including usage of Gothic's telemetry systems. Gothic's lifting costs are even lower than Chesapeake's lifting costs, which will result in improved operating results.
- Accretive to cash flow per share. Chesapeake believes the merger will be immediately accretive to cash flow per share.
- Improved leadership position. Chesapeake believes it will be the 10th largest independent natural gas producer in the United States after the merger.
- Presentation of financial advisor. Bear, Stearns & Co. Inc., Chesapeake's financial advisor, gave a financial presentation and delivered an opinion to the effect that as of the date of its opinion and based on and subject to the matters described in its opinion, the merger consideration is fair, from a financial point of view, to Chesapeake.
- Terms and conditions of merger. The terms and conditions of the merger agreement and the merger were viewed by the Chesapeake board of directors and management as fair to, and in the best interest of, Chesapeake and Chesapeake shareholders.

Chesapeake's board of directors was aware of the interests of Gothic's management in the merger as described in "Interests of Certain Persons in the Merger" below in determining whether to approve the merger agreement.

All combinations, including the merger, also include certain risks and disadvantages. The Chesapeake board of directors believed and continues to believe that the potential risks and disadvantages of the merger are greatly outweighed by the potential benefits anticipated to result from the merger.

## INTERESTS OF CERTAIN PERSONS IN THE MERGER

In considering the recommendation of the Gothic board with respect to the merger, Gothic shareholders should be aware that members of Gothic's management and the Gothic board of directors have interests in the merger separate from the interests of Gothic's shareholders generally. These separate interests are summarized below.

**Indemnification.** Chesapeake has agreed that, from and after the consummation of the merger, it will indemnify each person who is, has been at any time prior to the date of the merger agreement, or becomes prior to the effective time of the merger, an officer or director of Gothic or any of its subsidiaries, with respect to his service prior to the effective time of the merger to the fullest extent permitted by applicable law, Gothic's organizational documents, or any indemnification agreements with Gothic.

**Employment Agreements.** Michael Paulk, Gothic's President, and Steven P. Ensz, Gothic's Vice President and Chief Financial Officer, have each entered into amended employment agreements with Gothic that provide for severance payments upon termination of their employment on the effective date of the merger between Gothic and Chesapeake, among other circumstances. Mr. Paulk's employment agreement provides for a severance payment of \$225,000 as a result of the termination of his employment upon the closing of the merger, and Mr. Ensz's agreement provides for a severance payment of \$187,500. Each of these payments will be made on the date the merger becomes effective.

**Irrevocable Proxies.** In connection with the merger, Chesapeake has entered into limited irrevocable proxy agreements with Michael Paulk, Steven Ensz, Brian Bayley and John Fleming. These agreements grant Chesapeake the power to vote all of the shares of Gothic common stock owned by these officers and directors of Gothic in connection with the merger until the merger agreement is terminated or the merger is completed. These individuals have also agreed to vote in favor of the merger if Chesapeake cannot exercise the proxies granted to it. Additionally, these officers and directors have agreed to not sell their Gothic shares, grant any other proxies or powers of attorneys, or enter into any voting agreements with respect to their Gothic shares.

**Pledge Agreements.** On August 1, 2000, Gothic loaned Brian Bayley, a Gothic director, \$277,187 which was secured by a pledge of 712,000 shares of Gothic common stock. Similarly, Gothic loaned John Fleming, Gothic's chairman and a director, \$277,188 which was secured by a pledge of 712,000 shares of Gothic common stock. The loans are due July 31, 2001 and bear interest at an annual rate of 6%.

**Consulting Agreements.** Messrs. Paulk and Ensz have entered into two-year consulting agreements with Chesapeake which will become effective at the close of the merger. Chesapeake will pay Mr. Paulk a total of \$1,964,000 for his services under his consulting agreement, \$900,000 on the effective date of the merger and the remainder in successive quarterly payments of \$133,000. Chesapeake will pay Mr. Ensz a total of \$1,623,500, for his services under his consulting agreement, \$742,500 of which will be paid on the effective date of the merger and the remainder will be paid in successive quarterly payments of \$110,125. Chesapeake will also pay Messrs. Paulk and Ensz \$2,200 and \$1,400 per month, respectively, as expense reimbursement for the first six months of the contracts. As part of the consulting agreements, Messrs. Paulk and Ensz will agree not to acquire any oil and gas leasehold or mineral interest in any unit in the Mid-Continent area if Chesapeake owns an interest in such a unit. If Messrs. Paulk and Ensz make such an acquisition, they have agreed to offer the interests acquired to Chesapeake at their cost.

## CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

**General.** The following discussion summarizes certain United States federal income tax consequences of the merger which are generally applicable to holders of Gothic common stock under the Internal Revenue Code of 1986, as amended. Tax consequences which are different from or in addition to those described herein may apply to Gothic shareholders who are subject to special treatment under U.S. federal income tax laws, such as the following persons:

- non-U.S. persons,
- tax exempt organizations,

- financial institutions,
- insurance companies,
- broker-dealers,
- Gothic shareholders who hold their Gothic common stock as part of a hedge, straddle, wash sale, synthetic security, conversion transaction, or other integrated investment comprised of Gothic common stock and one or more other investments,
- persons with a "functional currency," as defined in the Internal Revenue Code, other than the U.S. dollar, and
- persons who acquired their shares of Gothic common stock in compensatory transactions.

This discussion does not address non-U.S. or state or local tax considerations. Moreover, this discussion does not address the tax consequences to holders of Gothic stock options and Gothic warrants.

THIS SUMMARY IS NOT A SUBSTITUTE FOR AN INDIVIDUAL ANALYSIS OF THE TAX CONSEQUENCES OF THE MERGER TO YOU. YOU SHOULD CONSULT A TAX ADVISER REGARDING THE PARTICULAR FEDERAL, STATE AND LOCAL AND NON-U.S. TAX CONSEQUENCES OF THE MERGER IN LIGHT OF YOUR OWN SITUATION.

While Chesapeake and Gothic intend for the merger to qualify as a reorganization under Section 368(a) of the Internal Revenue Code, the merger may or may not qualify as such a tax-free reorganization. Neither Chesapeake nor Gothic has requested or received a ruling from the Internal Revenue Service with respect to the federal income tax treatment of the merger and neither Chesapeake nor Gothic has obtained or will obtain an opinion of counsel with respect to such treatment. Neither Chesapeake, Chesapeake Merger 2000 Corp. nor Gothic will recognize gain or loss as a result of the merger. Assuming the merger qualifies as a tax-free reorganization, the material United States federal income tax consequences will include the following:

- You will not recognize gain or loss solely as a result of receiving Chesapeake common stock in the merger in exchange for Gothic common stock;
- Your aggregate tax basis of the shares of Chesapeake common stock you receive in the merger, including any fractional share not actually received, will be the same as the aggregate tax basis of the shares of Gothic common stock you surrender in the merger;
- Your holding period for the shares of Chesapeake common stock you receive in the merger will include the holding period of the shares of Gothic common stock you surrendered in the merger, provided that you hold your Gothic common stock as a capital asset at the effective time of the merger; and
- Any cash you receive in lieu of a fractional share of Chesapeake common stock will be treated as if you received a fractional share of Chesapeake common stock in the merger which was then redeemed by Chesapeake. This redemption should qualify as a distribution in full payment in exchange for the fractional share rather than as a distribution of a dividend. Accordingly, if you receive cash in lieu of a fractional share of Chesapeake common stock you will recognize gain or loss upon such payment in an amount equal to the difference, if any, between your basis in the fractional share and the amount of cash you receive. Such a gain or loss will be a capital gain or loss if you hold the Gothic common stock as a capital asset at the effective time of the merger.

In the event the merger were held not to qualify as a reorganization under Section 368(a) of the Internal Revenue Code, you would recognize gain or loss in an amount equal to the difference between your tax basis in your shares of Gothic common stock and the fair market value, as of the effective date of the merger, of the shares of Chesapeake common stock you receive in the merger. In such event, your tax basis in the shares of Chesapeake common stock you receive would be equal to the fair market value of such shares as of the effective date of the merger. The holding period for the shares of Chesapeake common stock you receive in the merger would begin on the day after the effective date of the merger.

Dissenting Gothic Shareholders. If you validly perfect appraisal rights as described below under "The Merger -- Appraisal Rights" and receive cash for the value of your shares of Gothic common stock, you should, in general, treat such cash as having been received as a distribution from Gothic in redemption of your Gothic shares. Such a redemption generally would be treated as a distribution in full payment in exchange for your shares of Gothic common stock, and you would recognize gain or loss measured by the difference between the cash received and the tax basis of your Gothic shares, if the redemption does not have the effect of the distribution of a dividend under Section 302 of the Internal Revenue Code, after applying the constructive ownership rules of Section 318 of the Internal Revenue Code. Any amount you receive through the exercise of dissenters' rights which is or is deemed to be interest for United States federal income tax purposes will be treated as ordinary income.

Backup Withholding; Information Reporting; Records. If you are a noncorporate Gothic shareholder, you may be subject to backup withholding at a rate of 31% with respect to the exchange of your Gothic shares in the merger or the exercise of dissenters' rights. Backup withholding will not apply, however, if you:

- (1) furnish a correct taxpayer identification number and certify you are not subject to backup withholding on Form W-9;
- (2) provide a certificate of foreign status on Form W-8, or
- (3) are otherwise exempt from backup withholding.

If you fail to provide the correct taxpayer identification number on Form W-9 you may be subject to a \$50 penalty imposed by the Internal Revenue Service.

You will be required to retain records and file a statement setting forth facts relating to the merger with your U.S. federal income tax return.

THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES SUMMARIZED ABOVE ARE FOR GENERAL INFORMATION ONLY. YOU SHOULD CONSULT A TAX ADVISER WITH RESPECT TO THE PARTICULAR CONSEQUENCES OF THE MERGER THAT MAY APPLY TO YOU, INCLUDING THE CONSEQUENCES UNDER STATE, LOCAL, NON-U.S. AND OTHER FEDERAL TAX LAWS.

#### ACCOUNTING TREATMENT

Chesapeake intends to account for the merger as a purchase of Gothic by Chesapeake, and not as a pooling of interests.

#### RESALES OF CHESAPEAKE COMMON STOCK RECEIVED IN THE MERGER

Shares of Chesapeake common stock issued in connection with the merger will be freely tradeable except for shares issued to affiliates of Gothic. Shares issued to affiliates of Gothic will be subject to the provisions of Rule 145 under the Securities Act of 1933.

#### LISTING OF CHESAPEAKE COMMON STOCK

Chesapeake has agreed to use its best efforts to list the Chesapeake common stock to be issued in the merger on the New York Stock Exchange.

#### APPRAISAL RIGHTS

Pursuant to Section 1091 of the Oklahoma General Corporation Act, any holder of Gothic common stock who does not vote in favor of the merger may elect to demand the appraisal of the value of such shares of Gothic common stock, exclusive of any element of value arising from the accomplishment or expectation of the merger, judicially determined and paid in cash, together with a fair rate of interest. The following discussion is not a complete statement of the law pertaining to appraisal rights under Oklahoma law, and is qualified in its entirety by the full text of Section 1091, which is set forth in its entirety as Annex C to this proxy statement/prospectus, and any future amendments to Section 1091.

If you wish to exercise your appraisal rights or wish to preserve the right to do so, you should carefully review Annex C to this proxy statement/prospectus. If you fail to comply with the procedures specified in Section 1091 in a proper and timely fashion, you will lose your appraisal rights. Moreover, because of the complexity of the procedures for exercising appraisal rights, Gothic recommends that if you are considering exercising appraisal rights you should seek the advice of counsel.

If you wish to exercise your right to demand appraisal under Section 1091, you must satisfy each of the following conditions:

(1) You must deliver to Gothic a written demand for appraisal of your shares of Gothic common stock prior to the vote being taken on the merger. Demand can only be made by the record owner. Consequently, if you are a beneficial owner who is not a record owner, you must instruct the record owner to make appropriate demand on your behalf. You should forward demands for appraisal to Gothic Energy Corporation, Two Warren Place, Suite 1200, 6120 South Yale Avenue, Tulsa, Oklahoma 74136, Attention: Secretary. A proxy or vote against the merger or merely failing to consent to the approval of the merger will not constitute a demand for appraisal within the meaning of Section 1091.

(2) You must not vote for the merger.

(3) You must continuously hold your shares of Gothic common stock from the date of making your demand through the effective time of the merger. Accordingly, if you are the record holder of shares of Gothic common stock on the date the written demand for appraisal is made but subsequently transfer such shares prior to the effective time, you will lose any right to appraisal in respect of such shares.

A demand for appraisal should:

- be executed by or on behalf of the shareholder of record, fully and correctly, as such shareholder's name appears on the shareholder's stock certificates,
- specify the shareholder's name, mailing address and the number of shares of Gothic common stock owned and include a statement that the shareholder intends thereby to demand appraisal of the shareholder's stock.

However, demand will be sufficient if it reasonably informs Gothic of the shareholder's identity and the shareholder's intent to demand appraisal of the shareholder's shares.

Any person signing a demand for appraisal on behalf of a partnership or corporation or other entity should indicate that person's title. If the shares are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of the demand should be made in that capacity, and if the shares of Gothic common stock are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be executed by or on behalf of all joint owners. An authorized agent, including one or more joint owners, may execute a demand for appraisal on behalf of a holder of record; however, the agent should identify the record owner or owners and expressly disclose the fact that in executing the demand for appraisal, the agent is acting for such owner or owners. A record holder such as a broker who holds shares of Gothic common stock as a nominee for several beneficial owners may exercise appraisal rights with respect to the shares of Gothic common stock held for one or more beneficial owners while not exercising such rights with respect to the shares of Gothic common stock held for other beneficial owners. In such case, the written demand should set forth the number of shares as to which appraisal is sought.

If you hold your Gothic shares in brokerage accounts or nominee form and you wish to exercise appraisal rights, we urge you to promptly consult with your broker or nominee to determine the appropriate procedures for the making of a demand for appraisal.

Within 10 days after the effective time of the merger, Chesapeake must give written notice that the merger has become effective to each shareholder who has not voted in favor of the merger and has filed a written demand meeting the requirements of Section 1091. Within 120 days after the effective time of the merger, but not thereafter, either Chesapeake or any former Gothic shareholder who has complied with the requirements of Section 1091 may file a petition in Oklahoma district court demanding a determination of the value of the shares of Gothic common stock held by all dissenting Gothic shareholders.

Chesapeake does not presently intend to file such a petition. If you seek to exercise your appraisal rights, you should not assume that Chesapeake will file such a petition or that Chesapeake will initiate any negotiations with respect to the fair value of your dissenting shares. Accordingly, if you desire to have your Gothic shares appraised, you should file the petition necessary for the determination of your appraised value within the time periods and in the manner prescribed in Section 1091. Inasmuch as Chesapeake does not have an obligation to file such a petition, if you fail to file a petition within the period specified, this could have the effect of nullifying your previous written demand for appraisal.

Within 120 days after the effective time of the merger, any Gothic shareholder who has complied with the provisions of Section 1091 to that point will be entitled to receive from Chesapeake, upon written request, a statement setting forth the aggregate number of shares not voted in favor of the merger and the aggregate number of holders of such shares. Chesapeake must mail such statement to the requesting shareholder within 10 days of receipt of such request or within 10 days of the expiration of the period for delivery of demands for appraisal, whichever is later.

If a petition for an appraisal is timely filed, after a hearing on such petition, the district court will determine which Gothic shareholders are entitled to appraisal rights and will appraise the "fair value" of their shares, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. In determining fair value, the district court will take into account all relevant factors. Any such payment will be made solely out of Gothic's assets. The costs of the action may be determined by the district court and taxed upon the parties as the district court deems equitable. Upon application of a shareholder, the district court may also order that all or a portion of the expenses incurred by any shareholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys' fees and expenses of experts, be charged pro rata against the value of all of the shares entitled to appraisal. IF YOU ARE CONSIDERING SEEKING APPRAISAL OF YOUR GOTHIC SHARES, YOU SHOULD BE AWARE THAT THE FAIR VALUE OF YOUR GOTHIC SHARES AS DETERMINED UNDER SECTION 1091 COULD BE MORE THAN, THE SAME AS OR LESS THAN THE CONSIDERATION YOU WOULD RECEIVE PURSUANT TO THE MERGER AGREEMENT IF YOU DID NOT SEEK APPRAISAL OF YOUR SHARES.

If you have duly demanded an appraisal in compliance with Section 1091, you will not, after the effective time, be entitled to vote the shares subject to the demand for any purpose or be entitled to the payment of dividends or other distributions on those shares (except dividends or other distributions payable to holders of record of shares as of a record date prior to the effective time) unless the demand is withdrawn, the appraisal rights are not perfected by the filing of a petition or a court of competent jurisdiction determines that the shareholder is not entitled to exercise dissenter's rights.

If you exercise your appraisal rights, you can at any time within 60 days after the effective time of the merger withdraw your demand for appraisal and accept the terms offered in the merger agreement if the withdrawal is made in writing to Chesapeake. After this period, you may withdraw your demand for appraisal only with Chesapeake's written consent. No appraisal proceeding in the district court will be dismissed without the approval of the district court, and such approval may be conditioned on terms the district court deems just. If no petition for appraisal is filed with the district court within 120 days after the effective time of the merger, if you have withdrawn your demand for appraisal, or if a court of competent jurisdiction determines you are not entitled to demand appraisal, your rights to appraisal will cease, and you will be entitled to receive the merger consideration set forth in the merger agreement.

IF YOU FAIL TO STRICTLY COMPLY WITH THE PROCEDURES SET FORTH IN SECTION 1091, YOU WILL LOSE YOUR STATUTORY APPRAISAL RIGHTS WITH RESPECT TO YOUR SHARES OF GOTHIC COMMON STOCK. CONSEQUENTLY, IF YOU WISH TO EXERCISE APPRAISAL RIGHTS, WE URGE YOU TO CONSULT LEGAL COUNSEL BEFORE ATTEMPTING TO EXERCISE YOUR RIGHTS. A VOTE AGAINST ADOPTION OF THE MERGER AGREEMENT ALONE WILL NOT SATISFY THE REQUIREMENTS OF THE SEPARATE WRITTEN DEMAND FOR APPRAISAL REFERRED TO IN THE STATUTORY PROCEDURE SUMMARIZED ABOVE.



## MATERIAL TERMS OF THE MERGER AGREEMENT

This section describes the material provisions of the merger agreement. This description does not purport to be complete and is qualified in its entirety by reference to the merger agreement. A copy of the merger agreement is attached to this document as Annex A and is incorporated herein by reference. We urge you to carefully read the merger agreement in its entirety.

## THE MERGER

**Structure.** In the merger, Chesapeake Merger 2000 Corp. will be merged into Gothic and Gothic will be the surviving corporation. As a result of the merger, Gothic will become a wholly owned subsidiary of Chesapeake.

**Effective Time.** The merger will become effective when a certificate of merger relating to the merger is filed with the Oklahoma Secretary of State. This is expected to occur after Gothic shareholders have approved the merger and after all of the other conditions in the merger agreement have been satisfied or waived. Chesapeake and Gothic anticipate the effective time of the merger will occur in January 2001.

**Share Conversion.** As a result of the merger, all outstanding shares of Gothic common stock, other than shares of Gothic common stock held by Chesapeake and those held by shareholders demanding appraisal rights, will be converted into Chesapeake common shares based on the exchange ratio described below. Chesapeake will receive no merger consideration with respect to Gothic common stock it owned as of September 8, 2000 or which is issued to Chesapeake upon the conversion of Gothic preferred stock it owns. The total number of Chesapeake common shares to be issued as consideration for Gothic common shares exchanged in the merger will be 4,000,000.

The exchange ratio to be used in the merger will equal the result obtained by dividing 4,000,000 shares of Chesapeake common stock to be issued in the merger by:

- the total number of issued and outstanding shares of Gothic common stock at the effective time of the merger, plus
- 53,572 shares issuable on exercise of outstanding Gothic warrants that were in the money on September 8, 2000, minus
- 2,394,125 shares of Gothic common stock which Chesapeake owned on September 8, 2000 and any Gothic common stock issued to Chesapeake with respect to any Gothic convertible securities owned by Chesapeake.

Each holder of Gothic common stock, other than Chesapeake and those demanding appraisal rights, will be entitled to receive the number of Chesapeake common shares obtained by multiplying the exchange ratio by the number of shares of Gothic common stock he or she holds. We estimate the exchange ratio will be 0.1908 shares of Chesapeake common stock for each share of Gothic common stock.

When the merger is completed, each outstanding share of Gothic's Series B senior redeemable preferred stock will remain outstanding and be governed by an amended and restated certificate of designation which will eliminate the right of the Series B preferred stock to be converted into Gothic common stock. Also, each share of Chesapeake Merger 2000 Corp. stock outstanding before the merger will automatically be converted into one share of Gothic common stock following the merger.

**Fractional Shares.** Chesapeake will not issue fractional shares in connection with the merger. Instead, each Gothic common shareholder will receive the number of Chesapeake common shares he or she is entitled to receive as described above, rounded down to the nearest whole number. The Chesapeake common shares representing the fractional interests otherwise issuable in the merger will be sold by Chesapeake's exchange agent at prevailing prices on the New York Stock Exchange. The cash received from the sale of such shares will be distributed to the Gothic common shareholders in lieu of fractional

shares in proportion to the fractional shares each Gothic common shareholder would have otherwise been entitled to.

In the merger, all shares of Gothic common stock, other than the shares held by Chesapeake prior to the merger, will automatically be canceled and retired, will cease to exist and will no longer be outstanding. Following the completion of the merger, Gothic common shareholders will cease to have any rights with respect to Gothic common stock other than the following:

- the right to receive Chesapeake common stock and cash in lieu of fractional shares or
- the consideration determined to be due to a shareholder demanding appraisal of his or her shares in accordance with the Oklahoma General Corporation Act.

Gothic Stock Options and Warrants. Chesapeake will assume, upon the consummation of the merger, each option and each warrant to purchase Gothic common stock outstanding at the effective time of the merger. The terms of the assumed options and warrants will be determined in accordance with the documents governing the options and warrants.

#### CERTAIN COVENANTS

Gothic Interim Operations. The merger agreement provides that, prior to the consummation of the merger, Gothic will conduct its business only in the ordinary course of business and in a manner consistent with its past practice. Gothic will use reasonable commercial efforts to preserve substantially intact its business organization and that of its subsidiary, to keep available the services of its present officers, employees and consultants and to preserve the goodwill of its current significant business relationships. In particular, Gothic has agreed that neither it nor its subsidiary will, without Chesapeake's prior written consent:

- amend or otherwise change their respective certificates of incorporation, by-laws or other organizational documents;
- issue, sell, pledge, dispose of or encumber, or authorize any of the foregoing with respect to, any shares of common or preferred stock or convertible securities or any other ownership interest in them, except for common stock issued pursuant to options, warrants or Gothic preferred stock outstanding on the date of the merger agreement;
- sell, pledge, dispose of or encumber any assets, other than sales of products in the ordinary course of business;
- declare, set aside, make or pay any dividend or other distribution in respect of any capital stock, other than distributions made from Gothic's subsidiary to Gothic or payment-in-kind dividends made to Chesapeake, as the sole holder, on Gothic's preferred stock;
- acquire any business entity or any division of any business entity or any material amount of assets, other than in the ordinary course of business, or enter into or amend any contract, agreement, commitment or arrangement to acquire any entity, division, or material assets;
- take or cause to be taken any action which would disqualify the merger as a reorganization under Section 368(a) of the Internal Revenue Code;
- amend, modify, terminate, waive or permit to lapse any right of first refusal, preferential right, right of first offer or any other material right they may hold;
- undertake significant capital commitments or expenditures, new land or lease initiatives, or new well proposals or regulatory or governmental actions with respect to any well activities;
- split, combine, reclassify, subdivide or redeem, purchase or otherwise acquire, directly or indirectly, any of their capital stock;

- settle or compromise any claim, suit or other action brought or threatened against them which is material or which relates to any of the transactions contemplated by the merger agreement, unless such settlement or compromise would not have a material adverse effect on Gothic;
- incur or enter into a contract to incur any indebtedness for borrowed money in excess of the borrowing base under Gothic's current bank credit agreement;
- make loans, incur indebtedness or capital contributions, or investments, other than in the ordinary course of business consistent with past practice;
- increase the compensation payable or to become payable to their directors, officers, employees or consultants except for increases in salaries or wages of employees who are not officers in accordance with past practices;
- grant any severance or termination pay to, or enter into any employment or severance agreement with, any of their directors, officers or other employees;
- establish, adopt, enter into or amend any collective bargaining agreement, benefit plan, trust, fund, policy or arrangement for the benefit of any director, officer or employee;
- make any material tax election or settle or compromise any material federal, state, local or foreign income tax liability;
- pay, discharge or satisfy any claims, liabilities or obligations other than in the ordinary course of business; or
- take or offer or propose to take, or agree in writing or otherwise to take, any of the actions described above or any action which would result in any of the conditions to the merger not being satisfied.

Chesapeake's Conduct. Chesapeake has agreed that, prior to the consummation of the merger, except as set forth in Chesapeake's SEC documents or as otherwise agreed to in writing, it will conduct its business and that of its subsidiaries in the ordinary course of business and consistent with past practice. Chesapeake will use its reasonable best efforts to preserve substantially intact its business organization and that of its subsidiaries, to keep available the services of its current officers, employees and consultants and to preserve the goodwill of current significant business relationships. In particular, Chesapeake will not, between the date of the merger agreement and the effective date of the merger, directly or indirectly do, or propose to do, any of the following without Gothic's prior written consent:

- amend or otherwise change the certificate of incorporation, by-laws, or other organizational documents of Chesapeake;
- reclassify, combine, split, subdivide or redeem, purchase or otherwise acquire, directly or indirectly, any Chesapeake common stock; or
- take or cause to be taken any action which would disqualify the merger as a reorganization under Section 368(a) of the Internal Revenue Code.

No Solicitation. As part of the merger agreement, Gothic has agreed to terminate any existing discussions or negotiations with any party other than Chesapeake regarding the acquisition of all or any part of Gothic's common stock or all or a material portion of Gothic's assets, business or equity interests. Gothic has additionally agreed it will not solicit or encourage the initiation of any inquiries or proposals regarding any merger, sale of assets, sale of all or more than 3% of its common stock or similar transactions involving Gothic or its subsidiary. However, if a third party makes an unsolicited, alternative proposal, Gothic may, after providing written notice to Chesapeake, enter into discussions or negotiations with such third party and provide the third party with non-public information concerning Gothic and its business and properties. In addition, Gothic may take and disclose to its shareholders a position with respect to a tender offer for its securities as required by the Securities Exchange Act of 1934. Prior to

providing any non-public information to a third party, Gothic must obtain an executed confidentiality and standstill agreement from the third party, with terms satisfactory to Chesapeake.

Gothic's board of directors may recommend the alternative proposal, or withdraw, modify or not make its recommendation in favor of the Chesapeake merger only if it determines in good faith:

- based on the advice of Gothic's counsel, that failure to recommend the alternative proposal would breach its fiduciary duties;
- based on the advice of Gothic's financial advisor, that the alternative proposal would have financially superior results for the Gothic shareholders, and that the person making the superior proposal has the financial means, or the ability to obtain the necessary financing, to conclude the transaction.

Gothic must notify Chesapeake about any inquiries indicating that any person intends to make an alternative proposal, any requests for non-public information, the terms and conditions of any offers or proposals and the status of any actions or discussions concerning an alternative proposal.

#### Other Chesapeake Covenants.

- Chesapeake will use its best efforts to list on the New York Stock Exchange the Chesapeake common shares to be delivered pursuant to the merger.
- After the consummation of the merger, Chesapeake will, to the fullest extent permitted under applicable law, indemnify and hold harmless each present and former director and officer of Gothic or its subsidiary against any costs or expenses, judgments, fines, losses, claims, damages, liabilities and amounts paid in settlement in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of any acts or omissions taken by such officer or director in his or her capacity as an officer or director, to the same extent as provided in Gothic's certificate of incorporation or by-laws or any applicable contract or agreement as in effect on the date of the merger agreement.
- Chesapeake will provide Gothic's financial advisors access to the executive officers of Chesapeake to the extent necessary for such advisors to prepare the financial opinion required by the merger agreement. Prior to accessing any information, the financial advisors must execute a confidentiality agreement.

#### Mutual Covenants.

- Gothic and Chesapeake will cooperate in the preparation and filing of the preliminary proxy statement and the registration statement and the acquisition of all necessary permits and registrations under state securities' laws.
- Gothic and Chesapeake agree and covenant that the information supplied by them for the proxy statement/prospectus and registration statement will be true and they will not omit any material fact required to make other statements contained in such documents not misleading. Gothic and Chesapeake further agree to notify the other party of any event requiring an amendment to the registration statement or a supplement to the proxy statement/prospectus and to cooperate in preparing and filing such amendments or supplements.
- Gothic and Chesapeake will give each other prompt notice of any representation being untrue when made, the occurrence or nonoccurrence of any event which would reasonably be expected to cause any representation or warranty contained in the merger agreement to be materially untrue or inaccurate on the closing date, or any failure of Gothic or Chesapeake, as the case may be, to comply with or satisfy any covenant, condition, or agreement contained in the merger agreement.
- The parties to the merger agreement will use all reasonable efforts to take all actions and do all things necessary or advisable to consummate and make effective the transactions contemplated by

the merger agreement, to obtain in a timely manner all necessary waivers, consents and approvals and to effect all necessary registrations and filings, and otherwise to satisfy or cause to be satisfied all conditions precedent to each of their obligations under the merger agreement.

- The parties to the merger agreement will use all reasonable efforts to have any order, ruling or injunction which restrains, enjoins or otherwise prevents consummation of the merger declared ineffective as soon as practicable.
- Gothic will provide severance pay in accordance with its severance policy to all Gothic employees, except as specifically provided for in the merger agreement.

#### REPRESENTATIONS AND WARRANTIES

The merger agreement contains customary representations and warranties made by Gothic relating to, among other things, the following:

- corporate organization, power and good standing,
- authority to enter into the merger agreement and approvals with respect to the merger agreement,
- no violations of organizational documents, loan documents and legal requirements,
- receipt of all necessary consents and approvals,
- compliance with securities laws and disclosure requirements,
- preparation of financial statements,
- brokerage and finders' fees,
- capitalization,
- absence of undisclosed material litigation,
- absence of adverse changes or events since March 31, 2000,
- compliance with laws, material agreements and permits,
- tax matters,
- employee benefit matters,
- environmental matters,
- employment contracts and related matters,
- labor matters,
- insurance,
- intellectual property matters,
- title to assets,
- opinion of financial advisor,
- oil and gas operations matters,
- financial and commodity hedging,
- books and records,
- subsidiaries,
- accuracy of information supplied for inclusion in the proxy statement/prospectus,
- required approvals,

- equipment,
- capital expenditure commitments, and
- employee, officer and director loans.

Chesapeake and Chesapeake Merger 2000 Corp. have made representations and warranties relating to, among other things, the following:

- corporate organization, power and good standing,
- authority to enter into the merger agreement and approvals with respect to the merger agreement,
- no violations of organizational documents, loan documents and legal requirements,
- receipt of all necessary consents and approvals,
- compliance with securities laws and disclosure requirements,
- preparation of financial statements,
- capitalization,
- governmental regulation,
- absence of undisclosed material litigation,
- brokerage and finders' fees,
- absence of adverse changes or events since March 31, 2000 and interim operations,
- compliance with laws, material agreements and permits,
- tax matters,
- no restrictions on the ability to complete the transaction,
- environmental matters,
- employment contracts and benefits,
- labor matters,
- insurance,
- intellectual property matters,
- opinion of financial advisor,
- books and records,
- employee benefit plans, and
- accuracy of information supplied for inclusion in the proxy statement/prospectus.

The representations and warranties contained in the merger agreement will not survive the merger, but they form the basis of certain conditions to the parties' obligations to complete the merger.

#### CONDITIONS TO THE MERGER

Conditions to Each Party's Obligations. The obligations of Gothic and Chesapeake to consummate the merger are subject to the satisfaction of the following conditions:

- the receipt of approval of the holders of Gothic common stock;
- satisfaction of all of the terms and conditions of Chesapeake's financing commitment relating to the merger and the effectiveness of such financing commitment;

- the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Act, if applicable, and receipt of all governmental and other consents and approvals required in connection with the consummation of the merger except where the failure to obtain such consents or approvals would not have a material adverse effect on Chesapeake or the merger;
- the absence of any temporary restraining order, preliminary or permanent injunction or other legal restraint or prohibition preventing the consummation of the merger;
- the effectiveness of the registration statement with respect to the shares of Chesapeake common stock to be issued in the merger, with no stop order suspending its effectiveness and no proceedings seeking a stop order;
- the delivery by Gothic to the trustee of the senior secured notes issued by Gothic's operating subsidiary of the officer's certificate indicating compliance with certain terms of the indenture issued by the operating subsidiary; and
- receipt of all material permits, approvals and consents of securities authorities of any jurisdiction that are necessary.

Additional Conditions to Chesapeake's Obligations. Chesapeake's obligation to consummate the merger is subject to the satisfaction or waiver, at or prior to the closing date, of the following additional conditions:

- the accuracy and correctness of Gothic's representations and warranties in the merger agreement as of the closing date of the merger, except to the extent that no material adverse effect on Gothic or its subsidiary is caused by the inaccuracy or incorrectness of any such representation or warranty;
- Gothic's performance, in all material respects, of its covenants and agreements under the merger agreement required to be performed at or prior to the closing date;
- Chesapeake's receipt of agreements regarding the sale of Chesapeake shares received in the merger from all affiliates of Gothic;
- the continuing validity of the tax determination made by Chesapeake under the merger agreement;
- the effectiveness of the pledge agreements or the letters directing the payment of loans out of severance payments, executed by Gothic's directors, officers and employees;
- the receipt of customary closing certificates, consents, legal opinions and other closing documents;
- Chesapeake's receipt of a release from each officer and director of Gothic and its subsidiary;
- the resignations of all corporate officers and directors of Gothic and its subsidiary;
- the absence of any change in condition of Gothic or its subsidiary that would have or would be reasonably likely to have a material adverse effect on Gothic or its subsidiary; and
- the holders of 5% or less of Gothic's outstanding common stock have demanded appraisal of their Gothic shares and such demands remain in effect.

Additional Conditions to Gothic's Obligations. Gothic's obligation to consummate the merger is subject to the satisfaction or waiver, at or prior to the closing date, of the following additional conditions:

- the accuracy and correctness of Chesapeake's representations and warranties and in the merger agreement as of the closing date of the merger, except to the extent that no material adverse effect is caused by the inaccuracy or incorrectness of any such representation or warranty;
- Chesapeake's performance, in all material respects, of its obligations under the merger agreement required to be performed at or prior to the closing date;
- the receipt of customary closing certificates, consents, legal opinions and other closing documents;

- the authorization for listing on the New York Stock Exchange of the shares of Chesapeake common stock to be issued in the merger; and
- the absence of any change in the condition of Chesapeake or its subsidiaries which would result in a material adverse effect on Chesapeake or its subsidiaries.

#### TERMINATION OF THE MERGER AGREEMENT

Rights to Terminate. The parties to the merger agreement can terminate the agreement and abandon the merger at any time prior to closing if they mutually agree to do so. Either Chesapeake or Gothic can unilaterally terminate the merger agreement if:

- Gothic's shareholders do not approve the merger agreement;
- any governmental authority issues an order, decree or ruling or takes any other action permanently enjoining, restraining or otherwise prohibiting the merger and such action has become final and nonappealable, provided the terminating party has used reasonable efforts to remove any such order; or
- the merger has not been consummated by June 30, 2001, unless the failure to consummate the merger is the result of a failure to fulfill any obligations under the merger agreement by the party seeking to terminate the merger agreement.

Chesapeake may unilaterally terminate the merger agreement if:

- Gothic materially breaches any of its representations and warranties contained in the merger agreement and the breach (1) causes a material adverse effect to Gothic, and (2) is not cured within 15 days following receipt of notice of such breach;
- Gothic fails to comply in any material respect with any of its covenants or agreements contained in the merger agreement and such failure is not, or cannot be, cured within 10 days after notice and demand for cure; or
- Gothic accepts a takeover proposal that its board of directors determines to constitute a superior proposal.

Gothic may unilaterally terminate the merger agreement if:

- Chesapeake breaches any of its representations and warranties in the merger agreement and such breach (1) causes a material adverse effect to Chesapeake, and (2) is not cured within 15 days following receipt of notice of such breach;
- Chesapeake fails to comply in any material respect with any of its covenants or agreements in the merger agreement and such failure is not, or cannot be, cured within a reasonable time after notice and demand for cure; or
- Gothic receives a takeover proposal that its board of directors determines to constitute a superior proposal such that it is obligated to accept the proposal, except that, prior to terminating the agreement upon receipt of a superior proposal, Gothic will provide Chesapeake with at least three full business days to adjust the terms and conditions of the merger agreement or the merger in order to enable Gothic to proceed with the merger, and provided further, that Gothic must pay the termination fee set forth in the merger agreement before terminating the merger agreement pursuant to this right.

If the merger agreement is terminated pursuant to its terms, no provision of the merger agreement will survive, other than the provisions relating to the truthfulness of statements made in the registration statement and the termination fee. Both Chesapeake and Gothic will remain liable for damages suffered by the other as a result of their breach of representations, warranties, covenants, agreements or other



obligations in the merger agreement prior to termination. Chesapeake's aggregate potential liability is limited to \$1,000,000 if Gothic terminates based on Chesapeake's breach of its representations and warranties, covenants or other agreements contained in the merger agreement. Gothic's aggregate liability is limited to \$1,000,000 if Chesapeake terminates based on Gothic's breach of its representations and warranties, covenants or other agreements contained in the merger agreement.

Termination Fee. Gothic must pay a termination fee of \$10,000,000 to Chesapeake if:

- (1) Gothic terminates the merger agreement because it received an alternative takeover proposal that its board of directors determined to be a superior proposal;
- (2) Chesapeake terminates the merger agreement because Gothic accepted an alternative takeover proposal that Gothic's board of directors determined to be superior; or
- (3) Gothic or Chesapeake terminate the merger agreement due to the failure of Gothic's shareholders to approve the merger if:
  - (a) at the time that the shareholders fail to approve the merger, Gothic has received an alternative proposal; and
  - (b) within seven months of the termination of the merger agreement, Gothic enters into a definitive agreement with a third party with respect to such alternative proposal.

#### EXPENSES

Each party will pay its own expenses whether or not the merger is consummated. However, Chesapeake and Gothic will each be responsible for 50% of the printing, filing and mailing costs, and all SEC and other regulatory filing fees, incurred in connection with this proxy statement/prospectus and the registration statement.

#### AMENDMENTS TO THE MERGER AGREEMENT

The parties to the merger agreement may amend it at any time before or after the approval of Gothic's shareholders by an instrument signed by all of the parties to the agreement. No amendment may be made subsequent to approval by Gothic's shareholders that, by law, would require further approval by the shareholders unless such approval is obtained.

## CHESAPEAKE'S BUSINESS

## GENERAL

Chesapeake Energy Corporation is an independent energy company focused on the exploration, development, acquisition and production of onshore natural gas reserves, principally in the Mid-Continent region of the United States. We began operations in 1989 and completed our initial public offering in 1993. Our common stock trades on the New York Stock Exchange under the symbol CHK. Our principal executive offices are located at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118. Our main telephone number is (405)848-8000 and our website address is www.chkenergy.com.

At the end of 1999, we owned interests in approximately 4,700 producing oil and gas wells. Our primary operating area is the Mid-Continent region, which includes Oklahoma, western Arkansas, southwestern Kansas and the Texas Panhandle. Our other operating areas are

- the Gulf Coast region consisting primarily of the Austin Chalk Trend in Texas and Louisiana and the Tuscaloosa Trend in Louisiana;
- the Helmet area of northeastern British Columbia; and
- the Permian Basin region of west Texas and southeastern New Mexico.

During 1999, we produced 133.5 Bcfe, making Chesapeake one of the 15 largest public independent oil and gas producers in the United States. We participated in 211 gross (119.7 net) wells, of which we operated 135 wells. A summary of our 1999 drilling activities, capital expenditures and property sales by primary operating area is as follows (\$ in thousands):

	GROSS WELLS DRILLED	NET WELLS DRILLED	CAPITAL EXPENDITURES -- OIL AND GAS PROPERTIES					TOTAL
			DRILLING	LEASEHOLD	SUB- TOTAL	ACQUISITIONS	SALE OF PROPERTIES	
Mid-Continent.....	169	95.3	\$ 55,670	\$12,478	\$ 68,148	\$47,364	\$(36,702)	\$ 78,810
Gulf Coast.....	10	3.7	22,049	8,288	30,337	629	(2,628)	28,338
Canada.....	12	7.5	27,380	1,982	29,362	4,100	(813)	32,649
Permian Basin.....	9	5.5	3,232	727	3,959	--	--	3,959
All other areas.....	11	7.7	20,874	588	21,462	--	(5,492)	15,970
Total.....	211	119.7	\$129,205	\$24,063	\$153,268	\$52,093	\$(45,635)	\$159,726

Our proved reserves increased 11% to an estimated 1,206 Bcfe at December 31, 1999, compared to 1,091 Bcfe of estimated proved reserves at December 31, 1998. See note 11 of the notes to our audited consolidated financial statements included at the end of this proxy statement/prospectus.

For 2000, we have established a capital expenditure budget of \$210 million, including approximately \$160 million allocated to drilling, acreage acquisition, seismic and related capitalized internal costs, and \$50 million for acquisitions, debt repayment and general corporate purposes, excluding the acquisition of Gothic. This budget is subject to ongoing adjustments based on drilling results, oil and gas prices, and other factors.

## RECENT DEVELOPMENTS

In a series of private transactions from June 27, 2000 through September 21, 2000, we purchased 99.8% of Gothic's \$104 million of 14 1/8% Series B senior secured discount notes for total consideration of \$80.8 million, comprised of \$23.3 million in cash and \$57.5 million of Chesapeake common stock (9,858,363 shares valued at \$5.825 per share), subject to adjustment. We also purchased \$20 million of the \$235 million of 11 1/8% senior secured notes issued by Gothic Production Company for \$22 million of Chesapeake common stock (3,694,939 shares valued at \$6.04 per share, subject to adjustment) in a private transaction that closed on September 1, 2000.

Gothic's previously announced plan of restructuring, which contemplated the redemption of our holdings of Gothic's preferred and common stock for oil and gas properties and other considerations, the exchange of the \$104 million senior discount note issue for 94% of Gothic's equity and an equity rights offering of \$15 million, has been terminated in anticipation of our acquisition of Gothic.

#### PRIMARY OPERATING AREA

##### Mid-Continent Region

Our Mid-Continent proved reserves of 758 Bcfe represented 63% of our total proved reserves as of December 31, 1999 and this area produced 70 Bcfe, or 52% of our 1999 production. During 1999, we invested approximately \$56 million to drill 169 gross (95.3 net) wells in the Mid-Continent.

#### SECONDARY OPERATING AREAS

##### Gulf Coast

Our Gulf Coast proved reserves, consisting of the Austin Chalk Trend in Texas and Louisiana, the Wharton County area in Texas, and the Tuscaloosa Trend in Louisiana, represented 190 Bcfe, or 15% of our total proved reserves as of December 31, 1999. During 1999, the Gulf Coast assets produced 45 Bcfe, or 34% of our total production. During 1999, we invested approximately \$22 million to drill 10 gross (3.7 net) wells in the Gulf Coast.

##### Helmet Area

Our Canadian proved reserves of 178 Bcfe represented 15% of our total proved reserves at December 31, 1999. During 1999, production from Canada was 12 Bcfe, or 9% of our total production. During 1999, we invested approximately \$27 million to drill 12 gross (7.5 net) wells, install various pipelines and compressors, and to perform capital workovers in Canada.

##### Permian Basin

Our Permian Basin proved reserves of 33 Bcfe represented 3% of our total proved reserves as of December 31, 1999 and this area produced 5 Bcfe, or 4% of our 1999 production. During 1999, we invested approximately \$3 million to drill 9 gross (5.5 net) wells in the Permian Basin.

#### OIL AND GAS RESERVES

The tables below set forth information as of December 31, 1999 with respect to our estimated proved reserves, the estimated future net revenue we may derive from these proved reserves and the present value of this future net revenue at such date. Williamson Petroleum Consultants, Inc. evaluated 50% and Ryder Scott Company L.P. evaluated 16% of our combined discounted future net revenues from our estimated proved reserves at December 31, 1999. The remaining properties were evaluated internally by our engineers. All estimates were prepared based upon a review of production histories and other geologic, economic, ownership and engineering data we developed. The present value of estimated future net revenue shown is not intended to represent the current market value of our estimated oil and gas reserves.

ESTIMATED PROVED RESERVES AS OF DECEMBER 31, 1999	OIL (Mbbbl)	GAS (Mmcf)	TOTAL (Mmcfe)
Proved developed.....	17,750	763,323	869,823
Proved undeveloped.....	7,045	293,503	335,772
Total proved.....	24,795	1,056,826	1,205,595

ESTIMATED FUTURE NET REVENUE AS OF DECEMBER 31, 1999(a)	PROVED DEVELOPED	PROVED UNDEVELOPED	TOTAL PROVED
	(\$ IN THOUSANDS)		
Estimated future net revenue.....	\$1,470,297	\$420,878	\$1,891,175
Present value of future net revenue.....	\$ 867,985	\$221,511	\$1,089,496

(a) Estimated future net revenue represents estimated future gross revenue to be generated from the production of proved reserves, net of estimated production and future development costs, using prices and costs in effect at December 31, 1999. The amounts shown do not give effect to non-property related expenses, such as general and administrative expenses, debt service and future income tax expense or to depreciation, depletion and amortization. The prices used in the external and internal reports yield weighted average prices of \$24.72 per barrel of oil and \$2.25 per Mcf of gas.

The future net revenue attributable to our estimated proved undeveloped reserves of \$420.9 million at December 31, 1999, and the \$221.5 million present value thereof, have been calculated assuming that we will expend approximately \$212.5 million to develop these reserves. The amount and timing of these expenditures will depend on a number of factors, including actual drilling results, product prices and the availability of capital.

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

Our ownership interest used in calculating proved reserves and the estimated future net revenue therefrom were determined after giving effect to the assumed maximum participation by other parties to our farmout and participation agreements. The prices used in calculating the estimated future net revenue attributable to proved reserves do not reflect market prices for oil and gas production sold subsequent to December 31, 1999. There can be no assurance that all of the estimated proved reserves will be produced and sold at the assumed prices or that existing contracts will be honored or judicially enforced.

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond our control. The reserve data set forth herein represent only estimates. Reserve engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact way, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. As a result, estimates made by different engineers often vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of such estimates, and such revisions may be material. Accordingly, reserve estimates are often different from the actual quantities of oil and gas that are ultimately recovered. Furthermore, the estimated future net revenue from proved reserves and the present value thereof are based upon certain assumptions, including prices, future production levels and cost, that may not prove correct. Predictions about prices and future production levels are subject to great uncertainty, and the foregoing uncertainties are particularly true as to proved undeveloped reserves, which are inherently less certain than proved developed reserves and which comprise a significant portion of our proved reserves.

The following table sets forth our estimated proved reserves by area and the related present value, discounted at 10%, of the proved reserves, based on weighted average prices at December 31, 1999 of \$24.72 per barrel of oil and \$2.25 per Mcf of gas:

	OIL (MBBL)	GAS (MMCF)	GAS EQUIVALENT (MMCFE)	PERCENT OF PROVED RESERVES	PRESENT VALUE (DISC. @ 10%) (\$ IN 000'S)
Mid-Continent.....	12,230	684,178	757,559	63%	\$ 663,993
Gulf Coast.....	4,169	164,693	189,708	15	211,348
Canada.....	--	178,242	178,242	15	97,749
Permian Basin.....	3,480	12,391	33,269	3	62,067
Other areas.....	4,916	17,322	46,817	4	54,339
Total.....	24,795	1,056,826	1,205,595	100%	\$1,089,496

During 1999, we increased our proved developed reserve percentage to 80% by present value and 72% by volume, and natural gas reserves accounted for 88% of proved reserves at December 31, 1999. See note 11

of the notes to our audited consolidated financial statements included at the end of this proxy statement/ prospectus for other disclosures about our oil and gas producing activities.

#### DRILLING ACTIVITY

The following table sets forth the wells we drilled during the periods indicated. In the table, "gross" refers to the total wells in which we have a working interest and "net" refers to gross wells multiplied by our working interest in those wells.

	YEARS ENDED DECEMBER 31,				SIX MONTHS ENDED DECEMBER 31,		YEAR ENDED JUNE 30,	
	1999		1998		1997		1997	
	GROSS	NET	GROSS	NET	GROSS	NET	GROSS	NET
<b>UNITED STATES</b>								
Development:								
Productive.....	167	93.3	158	93.9	55	24.4	90	55.0
Non-productive.....	17	10.6	9	4.7	1	0.3	2	0.2
Total.....	184	103.9	167	98.6	56	24.7	92	55.2
	===	=====	===	=====	==	=====	==	=====
Exploratory:								
Productive.....	9	3.7	46	23.4	28	15.5	71	46.1
Non-productive.....	6	4.6	9	6.8	2	0.9	8	5.7
Total.....	15	8.3	55	30.2	30	16.4	79	51.8
	===	=====	===	=====	==	=====	==	=====
<b>CANADA</b>								
Development:								
Productive.....	11	7.3	11	3.6				
Non-productive.....	1	0.2	1	0.4				
Total.....	12	7.5	12	4.0				
	===	=====	===	=====				
Exploratory:								
Productive.....	--	--	1	0.3				
Non-productive.....	--	--	7	2.1				
Total.....	--	--	8	2.4				
	===	=====	===	=====				

#### WELL DATA

At December 31, 1999, we had interests in 4,719 (2,235.1 net) producing wells, of which 238 (104.6 net) were classified as primarily oil producing wells and 4,481 (2,130.5 net) were classified as primarily gas producing wells.

## VOLUMES, REVENUE, PRICES AND PRODUCTION COSTS

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

	YEARS ENDED DECEMBER 31,		SIX MONTHS ENDED	YEAR ENDED
	1999	1998	DECEMBER 31, 1997	JUNE 30, 1997
NET PRODUCTION:				
Oil (Mbbbl).....	4,147	5,976	1,857	2,770
Gas (MMcf).....	108,610	94,421	27,326	62,005
Gas equivalent (MMcfe).....	133,492	130,277	38,468	78,625
OIL AND GAS SALES (\$ IN 000'S):				
Oil.....	\$ 66,413	\$ 75,877	\$34,523	\$ 57,974
Gas.....	214,032	181,010	61,134	134,946
Total oil and gas sales....	\$280,445	\$256,887	\$95,657	\$192,920
=====				
AVERAGE SALES PRICE:				
Oil (\$ per Bbl).....	\$ 16.01	\$ 12.70	\$ 18.59	\$ 20.93
Gas (\$ per Mcf).....	\$ 1.97	\$ 1.92	\$ 2.24	\$ 2.18
Gas equivalent (\$ per Mcfe).....	\$ 2.10	\$ 1.97	\$ 2.49	\$ 2.45
OIL AND GAS COSTS (\$ PER MCFE):				
Production expenses.....	\$ .35	\$ .39	\$ .20	\$ .14
Production taxes.....	\$ .10	\$ .06	\$ .07	\$ .05
General and administrative.....	\$ .10	\$ .15	\$ .15	\$ .11
Depreciation, depletion and amortization.....	\$ .71	\$ 1.13	\$ 1.57	\$ 1.31

Included in the above table are the results of our Canadian operations during 1999 and 1998. The average sales price for our Canadian gas production was \$1.19 and \$1.03 during 1999 and 1998, respectively, and the Canadian production expenses were \$0.18 and \$0.24 per Mcfe, respectively.

## DEVELOPMENT, EXPLORATION AND ACQUISITION EXPENDITURES

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

	YEARS ENDED DECEMBER 31		SIX MONTHS ENDED	YEAR ENDED
	1999	1998	DECEMBER 31, 1997	JUNE 30, 1997
(\$ IN THOUSANDS)				
Development and leasehold costs.....	\$126,865	\$176,610	\$144,283	\$324,989
Exploration costs.....	23,693	68,672	40,534	136,473
Acquisition costs.....	52,093	740,280	39,245	--
Sales of oil and gas properties.....	(45,635)	(15,712)	--	--
Capitalized internal costs.....	2,710	5,262	2,435	3,905
Total.....	\$159,726	\$975,112	\$226,497	\$465,367
=====				

## ACREAGE

The following table sets forth as of December 31, 1999 the gross and net acres of our developed and undeveloped oil and gas leases. "Gross" acres are the total number of acres in which we own a working interest. "Net" acres refer to gross acres multiplied by our fractional working interest. Acreage numbers

are stated in thousands and do not include options for additional leasehold we held but had not yet exercised.

	DEVELOPED		UNDEVELOPED		TOTAL DEVELOPED AND UNDEVELOPED	
	GROSS	NET	GROSS	NET	GROSS	NET
Mid-Continent.....	1,439	563	848	306	2,287	869
Gulf Coast.....	230	156	766	666	996	822
Canada.....	100	50	641	305	741	355
Permian Basin.....	5	3	42	23	47	26
Other areas.....	35	18	597	398	632	416
Total.....	1,809	790	2,894	1,698	4,703	2,488

#### MARKETING

Our oil production is sold under market sensitive or spot price contracts. Our natural gas production is sold to purchasers under varying percentage-of-proceeds and percentage-of-index contracts or by direct marketing to end users or aggregators. By the terms of the percentage-of-proceeds contracts, we receive a percentage of the resale price received by the purchaser for sales of residue gas and natural gas liquids recovered after gathering and processing our gas. The residue gas and natural gas liquids sold by these purchasers are sold primarily based on spot market prices. The revenue we receive from the sale of natural gas liquids is included in natural gas sales. During 1999, only sales to Aquila Southwest Pipeline Corporation accounted for more than 10% of our total oil and gas sales. We believe the loss of this customer would not have a material adverse effect on our results of operations or our financial position.

Sales to individual customers constituting 10% or more of total oil and gas sales were as follows from July 1, 1996 to December 31, 1999:

YEAR ENDED DECEMBER 31,	AMOUNT	PERCENT OF
	(\$ IN THOUSANDS)	OIL AND GAS SALES
1999 Aquila Southwest Pipeline Corporation.....	\$31,505	11%
1998 Koch Oil Company.....	\$30,564	12%
Aquila Southwest Pipeline Corporation.....	28,946	11
SIX MONTHS ENDED DECEMBER 31,		
1997 Aquila Southwest Pipeline Corporation.....	\$20,138	21%
Koch Oil Company.....	18,594	19
GPM Gas Corporation.....	12,610	13
FISCAL YEAR ENDED JUNE 30,		
1997 Aquila Southwest Pipeline Corporation.....	\$53,885	28%
Koch Oil Company.....	29,580	15
GPM Gas Corporation.....	27,682	14

Chesapeake Energy Marketing, Inc., a wholly owned subsidiary, provides us oil and natural gas marketing services, including commodity price structuring, contract administration and nomination services. Chesapeake Energy Marketing also provides these services to our partners and other oil and natural gas producers in certain geographical areas where we are active.

#### HEDGING ACTIVITIES

Periodically, we utilize hedging strategies to hedge the price of a portion of our future oil and gas production and to manage fixed interest rate exposure. See "Chesapeake Energy Corporation Quantitative and Qualitative Disclosures About Market Risk."

## COMPETITION

The oil and gas industry is highly competitive. We compete with major and independent oil and gas companies for the acquisition of leasehold, proven oil and gas properties, as well as for the services and labor required to explore, develop and produce such properties. Many of these competitors have financial, technical and other resources substantially greater than ours.

## REGULATION

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

Exploration and Production. Our operations are subject to various types of regulation at the federal, state and local levels. Such regulation includes:

- requiring permits for the drilling of wells,
- maintaining bonding requirements in order to drill or operate wells and regulating the location of wells,
- the method of drilling and casing wells,
- the surface use and restoration of properties upon which wells are drilled, and
- the plugging and abandoning of wells and the disposal of fluids used or obtained in connection with operations.

Our operations are also subject to various conservation regulations. These include the regulation of the size of drilling and spacing units and the density of wells which may be drilled and the unitization or pooling of oil and gas properties. In this regard, some states, such as Oklahoma, allow the forced pooling or integration of tracts to facilitate exploration while other states, such as Texas, rely on voluntary pooling of lands and leases. In areas where pooling is voluntary, it may be more difficult to form units and, therefore, more difficult to develop a prospect if the operator owns less than 100% of the leasehold. In addition, state conservation laws establish maximum rates of production from oil and gas wells, generally prohibit the venting or flaring of gas and impose certain requirements regarding the ratability of production. The effect of these regulations is to limit the amount of oil and gas we can produce and to limit the number of wells or the locations at which we can drill. The full extent of any impact of such restrictions cannot be predicted.

## Environmental and Occupational Regulation.

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

Our exploration, development and production activities are subject to stringent environmental regulation by state and federal authorities including the United States Environmental Protection Agency. Such regulation has increased the cost of planning, designing, drilling, operating and in some instances, abandoning wells. In most instances, the regulatory requirements relate to the handling and disposal of drilling and production waste products and waste created by water and air pollution control procedures. Although we believe compliance with environmental regulations will not have a material adverse effect on our operations or earnings, risks of substantial costs and liabilities are inherent in oil and gas operations, and there can be no assurance that significant costs and liabilities, including criminal penalties, will not be



incurred. Moreover, it is possible that other developments, such as stricter environmental laws and regulations, and claims for damages for injuries to property or persons resulting from our operations could result in substantial costs and liabilities.

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

We generate wastes, including hazardous wastes, that are subject to the federal Resource Conservation and Recovery Act and comparable state statutes. The Environmental Protection Agency and various state agencies have limited the disposal options for hazardous and nonhazardous wastes and are considering the adoption of stricter disposal standards for nonhazardous wastes. Furthermore, certain wastes generated by our oil and natural gas operations that are currently exempt from treatment as hazardous wastes may in the future be designated as hazardous wastes, and therefore be subject to considerably more rigorous and costly operating and disposal requirements.

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

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

**OSHA.** We are subject to the requirements of the federal Occupational Safety and Health Act and comparable state statutes. The OSHA hazard communications standard, the EPA community right-to-know regulations under Title III of the federal Superfund Amendment and Reauthorization Act and similar state statutes require us to organize information about hazardous materials used, released or produced in our operations. Certain of this information must be provided to employees, state and local governmental authorities and local citizens. We are also subject to the requirements and reporting set forth

in OSHA workplace standards. We provide safety training and personal protective equipment to our employees.

OPA and Clean Water Act. Federal regulations require certain owners or operators of facilities that store or otherwise handle oil, such as Chesapeake, to prepare and implement spill prevention control plans, countermeasure plans and facilities response plans relating to the possible discharge of oil into surface waters. The Oil Pollution Act of 1990, or OPA, subjects owners of facilities to strict joint and several liability for all containment and cleanup costs and certain other damages arising from a spill, including, but not limited to, the costs of responding to a release of oil to surface waters. The Clean Water Act provides penalties for any discharges of petroleum product in reportable quantities and imposes substantial liability for the costs of removing a spill. State laws for the control of water pollution also provide varying civil and criminal penalties and liabilities in the case of releases of petroleum or its derivatives into surface waters or into the ground. Regulations are currently being developed under OPA and state laws concerning oil pollution prevention and other matters that may impose additional regulatory burdens on the Company. In addition, the Clean Water Act and analogous state laws require permits to be obtained to authorize discharges into surface waters or to construct facilities in wetland areas. With respect to certain of our operations, we are required to maintain permits under the Clean Water Act or meet general permit requirements. The EPA has adopted regulations concerning discharges of storm water runoff. These regulations require covered facilities to obtain individual permits, participate in a group permit or seek coverage under an EPA general permit. We believe that, with respect to existing properties, we have obtained, or are included under, necessary permits and with respect to future operations we will be able to obtain, or be included under, their permits, where necessary. Compliance with these permits is not expected to have a material effect on our operations.

NORM. Oil and gas exploration and production activities have been identified as generators of concentrations of low-level naturally-occurring radioactive materials ("NORM"). NORM regulations have recently been adopted in several states. We are not able to fully estimate the effect of these regulations, although based on our preliminary analysis to date, we do not believe compliance with such regulations will have a material adverse effect on our operations or financial condition.

Safe Drinking Water Act. Our operations involve the disposal of produced saltwater and other nonhazardous oilfield wastes by reinjection into the subsurface. Under the Safe Drinking Water Act, oil and gas operators, such as Chesapeake, must obtain a permit for the construction and operation of underground Class II injection wells. To protect against contamination of drinking water, we are required to perform periodic mechanical integrity tests. We have obtained the necessary permits for the Class II wells we operate. We also have disposed of wastes in facilities other than those we owned which are commercial Class II injection wells.

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

#### TITLE TO PROPERTIES

Title to properties is subject to royalty, overriding royalty, carried, net profits, working and other similar interests and contractual arrangements customary in the oil and gas industry, to liens for current taxes not yet due and to other encumbrances. As is customary in the industry in the case of undeveloped properties, only cursory investigation of record title is made at the time of acquisition. Drilling title opinions are usually prepared before commencement of drilling operations. From time to time, our title to oil and gas properties is challenged through legal proceedings. We are routinely involved in litigation involving title to certain of our oil and gas properties, some of which we believe could be adverse to Chesapeake, individually or in the aggregate.

## OPERATING HAZARDS AND INSURANCE

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

We maintain a \$50 million oil and gas lease operator policy that insures against sudden and accidental risks associated with drilling, completing and operating our wells. There can be no assurance that this insurance will be adequate to cover any losses or exposure to liability. We also carry comprehensive general liability policies and a \$75 million umbrella policy. We carry, and our subsidiaries carry, workers' compensation insurance in all states in which we operate and a \$75 million employment practice liability policy. While we believe these policies are customary in the industry, they do not provide complete coverage against all operating risks.

## EMPLOYEES

We had 427 full-time employees as of June 30, 2000. No employees are represented by organized labor unions. We consider our employee relations to be good.

## FACILITIES

We own an office building complex in Oklahoma City totaling approximately 86,500 square feet and nine acres of land that comprise our headquarters' offices. We also own field offices in Lindsay and Waynoka, Oklahoma and Garden City, Kansas. We lease office space in Oklahoma City and Weatherford, Oklahoma; Fritch and Navasota, Texas; and Dickinson, North Dakota. We also have leased office space in College Station, Texas; Wichita, Kansas; and Calgary, Alberta, Canada, which has been sub-leased.

## LEGAL PROCEEDINGS

We are subject to ordinary routine litigation incidental to our business. In addition, the following matters are pending or were recently terminated:

**Securities Litigation.** On March 3, 2000, the U.S. District Court for the Western District of Oklahoma dismissed a consolidated class action complaint styled *In re Chesapeake Energy Corporation Securities Litigation*. The complaint, which consolidated twelve purported class action suits filed in August and September 1997, alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 by Chesapeake and certain of our officers and directors. The action was brought on behalf of purchasers of our common stock and common stock options between January 25, 1996 and June 27, 1997. The complaint alleged that the defendants made material misrepresentations and failed to disclose material facts about our exploration and drilling activities in the Louisiana Trend. The court ruled that Chesapeake had disclosed the precise risks of its Louisiana Trend activities. The plaintiffs in this case have filed a motion to amend their consolidated complaint but no appeal has been filed.

**Bayard Drilling Technologies, Inc.** On July 30, 1998, the plaintiffs in *Yuan, et al. v. Bayard, et al.* filed an amended class action complaint in the U.S. District Court for the Western District of Oklahoma alleging violations of Sections 11 and 12 of the Securities Act of 1933 and Section 408 of the Oklahoma Securities Act by Chesapeake and others. The action, originally filed in February 1998, was brought purportedly on behalf of investors who purchased Bayard common stock in, or traceable to, Bayard's initial public offering in November 1997. The defendants include officers and directors of Bayard who signed the registration statement, selling shareholders, including Chesapeake, and

underwriters of the offering. Total proceeds of the offering were \$254 million, of which we received net proceeds of \$90 million.

The plaintiffs allege that Chesapeake, which owned 30.1% of Bayard's outstanding common stock prior to the offering, was a controlling person of Bayard. The plaintiffs also allege that we had established an interlocking financial relationship with Bayard and were a customer of Bayard's drilling services under allegedly below-market terms. The plaintiffs assert that the Bayard prospectus contained material omissions and misstatements relating to (i) our financial "problems" and their impact on Bayard's operating results, (ii) increased costs associated with Bayard's growth strategy, (iii) undisclosed pending related-party transactions between Bayard and third parties other than Chesapeake, (iv) Bayard's planned use of offering proceeds and (v) Bayard's capital expenditures and liquidity. The alleged defective disclosures are claimed to have resulted in a decline in Bayard's share price following the public offering. The plaintiffs seek a determination that the suit is a proper class action and damages in an unspecified amount or rescission, together with interest and costs of litigation, including attorneys' fees.

On August 24, 1999, the District Court entered an order granting in part and denying in part the defendants' motion to dismiss the action. The court dismissed the plaintiffs' claims against Chesapeake under Section 15 of the Securities Act of 1933 alleging that Chesapeake was a "controlling person" of Bayard. The court denied that portion of the defendants' motion seeking dismissal of the plaintiffs' claims under Sections 11 and 12(a)(2) of the Securities Act of 1933 and Section 408 of the Oklahoma Securities Act. Of these, only the Section 11 claim and the Section 408 claim are asserted against Chesapeake. Discovery is proceeding in the case and trial is presently scheduled to be held in May 2001.

We believe we have meritorious defenses to these claims and intend to defend this action vigorously. No estimate of loss or range of estimate of loss, if any, can be made at this time. Bayard, which was acquired by Nabors Industries, Inc. in April 1999, has been reimbursing us for our costs of defense as they have been incurred.

Patent Litigation. In Union Pacific Resources Company v. Chesapeake, et al., filed in October 1996 in the U.S. District Court for the Northern District of Texas, Fort Worth Division, Union Pacific Resources Company asserted that we had infringed UPRC's patent covering a "geosteering" method utilized in drilling horizontal wells. Following a trial to the court in June 1999, the court ruled on September 21, 1999 that the patent was invalid. Because the patent was declared invalid, the court held that we could not have infringed the patent, dismissed all of UPRC's claims with prejudice and assessed court costs against UPRC. The court concluded that the UPRC patent was invalid for failure to describe definitively the patented method in the patent claims and for failure to provide sufficient disclosure in the patent to enable one of ordinary skill in the art to practice the patented method. Appeals of the judgment by both Chesapeake and UPRC are pending in the Federal Circuit Court of Appeals. We are not able to predict the outcome of these appeals but we believe the invalidity of the patent will be upheld on appeal. We have appealed the trial court's ruling denying our request for attorneys' fees.

West Panhandle Field Cessation Cases One of our subsidiaries, Chesapeake Panhandle Limited Partnership ("CP") (f/k/a MC Panhandle, Inc.), and two subsidiaries of Kinder Morgan, Inc. are defendants in 13 lawsuits filed between June 1997 and January 1999 by royalty owners seeking the cancellation of oil and gas leases in the West Panhandle Field in Texas. MC Panhandle, Inc., which we acquired in April 1998, has owned the leases since January 1, 1997. The co-defendants are prior lessees.

The plaintiffs in these cases claim the leases terminated upon the cessation of production for various periods primarily during the 1960s. In addition, the plaintiffs seek to recover conversion damages, exemplary damages, attorneys' fees and interest. Defendants assert that any cessation of production was excused and have pled affirmative defenses of limitations, waiver, temporary estoppel,

laches and title by adverse possession. Four of the 13 cases have been tried; no trial dates have been set for the other cases.

Following are the cases pending or tried in the District Court of Moore County, Texas, 69th Judicial District:

Lois Law, et al. v. NGPL, et al., No. 97-70, filed December 22, 1997, jury trial in June 1999, verdict for CP and co-defendants. The jury found plaintiffs' claims were barred by adverse possession, laches and revivor. On January 19, 2000, the court granted plaintiffs' motion for judgment notwithstanding verdict and entered judgment in favor of plaintiffs. In addition to quieting title to the lease (including existing gas wells and all attached equipment) in plaintiffs, the court awarded actual damages against CP in the amount of \$716,400 and exemplary damages in the amount of \$25,000. The court further awarded, jointly and severally from all defendants, \$160,000 in attorneys' fees and interest and court costs. CP and the other defendants have appealed and posted supersedeas bonds.

Joseph H. Pool, et al. v. NGPL, et al., No. 98-30, first filed December 17, 1997, refiled May 11, 1998, jury trial in June 1999, verdict for CP and co-defendants. The jury found plaintiffs' claims were barred by laches and adverse possession. On September 28, 1999, the court granted plaintiffs' motion for judgment notwithstanding verdict and entered judgment in favor of plaintiffs. In addition to quieting title to the lease (including existing gas wells and all attached equipment) in plaintiffs, the court awarded actual damages as of June 28, 1999 of \$545,000 from CP and \$235,000 jointly and severally from the other two defendants. The court further awarded, jointly and severally from all defendants, \$77,500 of attorneys' fees in the event of an appeal, \$1,900 of sanctions, interest and court costs. CP and the other two defendants filed an appeal of the judgment in the Court of Appeals for the Seventh District of Texas in Amarillo on October 12, 1999, and they have each posted a supersedeas bond.

Joseph H. Pool, et al. v. NGPL, et al., No. 98-36, first filed February 2, 1998, refiled May 20, 1998, jury trial in July 1999, verdict for plaintiffs. The jury found that the defendants were bad-faith trespassers and produced gas from the leases as a result of fraud. On September 28, 1999, the court entered final judgment for plaintiffs terminating the lease, quieting title to the lease (including existing gas wells and all attached equipment) in plaintiffs as of June 1, 1999 and awarding actual damages of \$1.5 million, attorneys' fees of \$97,500 in the event of an appeal, interest and court costs. CP's liability for this award is joint and several with the other two defendants. The court also awarded exemplary damages of \$1.2 million against each of CP and the other two defendants. CP and the other two defendants filed an appeal of the judgment in the Court of Appeals for the Seventh District of Texas in Amarillo on October 12, 1999, and they have each posted a supersedeas bond.

A. C. Smith, et al. v. NGPL, et al., No. 98-47, first filed January 26, 1998, refiled May 29, 1998. On June 18, 1999, the court granted plaintiffs' motion for summary judgment in part, finding that the lease had terminated due to the cessation of production, subject to the defendants' affirmative defenses.

Joseph H. Pool, et al. v. NGPL, et al., No. 98-35, first filed February 2, 1998, refiled May 20, 1998. On December 3, 1999, the Court entered a partial summary judgment finding the lease had terminated and that defendants' affirmative defenses all failed as a matter of law except with respect to the defense of revivor against certain of the plaintiffs. CP and the other defendants filed a motion to reconsider on December 22, 1999.

Joseph H. Pool, et al. v. NGPL, et al., No. 98-49, first filed March 10, 1998, refiled May 29, 1998.

Joseph H. Pool, et al. v. NGPL, et al., No. 98-50, first filed March 18, 1998, refiled May 29, 1998.

Joseph H. Pool, et al. v. NGPL, et al., No. 98-51, first filed December 2, 1997, refiled May 29, 1998.

Joseph H. Pool, et al. v. NGPL, et al., No. 98-48, first filed February 2, 1998, refiled May 29, 1998.

Joseph H. Pool, et al. v. NGPL, et al., No. 98-70, first filed March 23, 1998, refiled October 22, 1998.

The Pool cases listed above were first filed in the U.S. District Court, Northern District of Texas, Amarillo Division. Other related cases pending are the following:

Phillip Thompson, et al. v. NGPL, et al., U.S. District Court, Northern District of Texas, Amarillo Division, Nos. 2:98-CV-012 and 2:98-CV-106, filed January 8, 1998 and March 18, 1998, respectively (actions consolidated), jury trial in May 1999, verdict for CP and co-defendants. The jury found plaintiffs' claims were barred by the payment of shut-in royalties, laches, and revivor. Plaintiffs have filed a motion for a new trial.

Craig Fuller, et al. v. NGPL, et al., District Court of Carson County, Texas, 100th Judicial District, No. 8456, filed June 23, 1997, cross motions for summary judgment pending.

Pace v. NGPL et al., U.S. District Court, Northern District of Texas, Amarillo Division, filed January 29, 1999. Defendants' motion for summary judgment pending.

We have previously established an accrued liability we believe will be sufficient to cover the estimated costs of litigation for each of these cases. Because of the inconsistent verdicts reached by the juries in the four cases tried to date and because the amount of damages sought is not specified in all of the other cases, the outcome of the remaining trials and the amount of damages that might ultimately be awarded could differ from management's estimates. We believe, however, that the leases are valid, there is no basis for exemplary damages and that any findings of fraud or bad faith will be overturned on appeal. CP and the other defendants intend to vigorously defend against the plaintiffs' claims.

#### INCORPORATION

We were incorporated as a Delaware corporation on December 26, 1991 and were reincorporated as an Oklahoma corporation on December 31, 1996.

## CHESAPEAKE ENERGY CORPORATION

## SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data of Chesapeake for the six months ended June 30, 2000 and 1999, the years ended December 31, 1999, 1998 and 1997, the six-month transition period ended December 31, 1997, the six months ended December 31, 1996 and the two fiscal years ended June 30, 1997 and 1996. The data are derived from our audited consolidated financial statements, except for periods for the six months ended June 30, 2000 and 1999, the year ended December 31, 1997 and the six months ended December 31, 1996, which are derived from unaudited consolidated financial statements of Chesapeake. Acquisitions we made during the first and second quarters of 1998 materially affect the comparability of the selected financial data for 1997 and 1998. Each of the acquisitions was accounted for using the purchase method. The table should be read in conjunction with "Chesapeake Energy Corporation Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements of Chesapeake, including the notes thereto, appearing in this proxy statement/prospectus.

	SIX MONTHS ENDED JUNE 30,	
	2000	1999
	(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)	
<b>STATEMENT OF OPERATIONS DATA:</b>		
Revenues:		
Oil and gas sales.....	\$ 187,514	\$ 120,078
Oil and gas marketing sales.....	61,610	26,491
	-----	-----
Total revenues.....	249,124	146,569
	-----	-----
Operating costs:		
Production expenses.....	25,126	25,175
Production taxes.....	10,933	4,788
General and administrative.....	6,220	7,292
Oil and gas marketing expenses.....	59,666	24,958
Oil and gas depreciation, depletion and amortization....	49,360	47,386
Depreciation and amortization of other assets.....	3,702	4,138
	-----	-----
Total operating costs.....	155,007	113,737
	-----	-----
Income from operations.....	94,117	32,832
	-----	-----
Other income (expense):		
Interest and other income.....	2,859	3,840
Interest expense.....	(42,677)	(40,149)
	-----	-----
	(39,818)	(36,309)
	-----	-----
Income (loss) before income taxes.....	54,299	(3,477)
Provision (benefit) for income taxes.....	1,463	326
	-----	-----
Net income (loss).....	52,836	(3,803)
Preferred stock dividends.....	(6,949)	(8,052)
Gain on redemption of preferred stock.....	11,895	--
	-----	-----
Net income (loss) available to common shareholders.....	\$ 57,782	\$ (11,855)
	=====	=====
Earnings (loss) per common share:		
Basic.....	\$ 0.53	\$ (0.12)
Assuming dilution.....	\$ 0.36	\$ (0.12)
Cash dividends declared per common share.....	\$ --	\$ --
<b>CASH FLOW DATA:</b>		
Cash provided by operating activities before changes in working capital.....	\$ 107,753	\$ 48,145
Cash provided by operating activities.....	83,870	47,566
Cash used in investing activities.....	(130,569)	(67,345)
Cash provided by financing activities.....	20,264	14,187
Effect of exchange rate changes on cash.....	(204)	3,625
<b>BALANCE SHEET DATA (at end of period):</b>		
Total assets.....	\$ 980,982	N/A
Long-term debt, net of current maturities.....	983,230	N/A
Stockholders' equity (deficit).....	(119,980)	N/A

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED DECEMBER 31,		YEARS ENDED JUNE 30,	
	1999	1998	1997	1997	1996	1997	1996
	(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)						
<b>STATEMENT OF OPERATIONS DATA:</b>							
Revenues:							
Oil and gas sales.....	\$ 280,445	\$ 256,887	\$ 198,410	\$ 95,657	\$ 90,167	\$ 192,920	\$110,849
Oil and gas marketing sales.....	74,501	121,059	104,394	58,241	30,019	76,172	28,428
Oil and gas service operations...	--	--	--	--	--	--	6,314
Total revenues.....	354,946	377,946	302,804	153,898	120,186	269,092	145,591
Operating costs:							
Production expenses.....	46,298	51,202	14,737	7,560	4,268	11,445	6,340
Production taxes.....	13,264	8,295	4,590	2,534	1,606	3,662	1,963
General and administrative.....	13,477	19,918	10,910	5,847	3,739	8,802	4,828
Oil and gas marketing expenses...	71,533	119,008	103,819	58,227	29,548	75,140	27,452
Oil and gas service operations...	--	--	--	--	--	--	4,895
Oil and gas depreciation, depletion and amortization....	95,044	146,644	127,429	60,408	36,243	103,264	50,899
Depreciation and amortization of other assets.....	7,810	8,076	4,360	2,414	1,836	3,782	3,157
Impairment of oil and gas properties.....	--	826,000	346,000	110,000	--	236,000	--
Impairment of other assets.....	--	55,000	--	--	--	--	--
Total operating costs.....	247,426	1,234,143	611,845	246,990	77,240	442,095	99,534
Income (loss) from operations.....	107,520	(856,197)	(309,041)	(93,092)	42,946	(173,003)	46,057
Other income (expense):							
Interest and other income.....	8,562	3,926	87,673	78,966	2,516	11,223	3,831
Interest expense.....	(81,052)	(68,249)	(29,782)	(17,448)	(6,216)	(18,550)	(13,679)
	(72,490)	(64,323)	57,891	61,518	(3,700)	(7,327)	(9,848)
Income (loss) before income taxes and extraordinary item.....	35,030	(920,520)	(251,150)	(31,574)	39,246	(180,330)	36,209
Provision (benefit) for income taxes.....	1,764	--	(17,898)	--	14,325	(3,573)	12,854
Income (loss) before extraordinary item.....	33,266	(920,520)	(233,252)	(31,574)	24,921	(176,757)	23,355
Extraordinary item:							
Loss on early extinguishment of debt, net of applicable income taxes.....	--	(13,334)	(177)	--	(6,443)	(6,620)	--
Net income (loss).....	33,266	(933,854)	(233,429)	(31,574)	18,478	(183,377)	23,355
Preferred stock dividends.....	(16,711)	(12,077)	--	--	--	--	--
Net income (loss) available to common shareholders.....	\$ 16,555	\$ (945,931)	\$(233,429)	\$(31,574)	\$ 18,478	\$(183,377)	\$ 23,355
Earnings (loss) per common share -- Basic:							
Income (loss) before extraordinary item.....	\$ 0.17	\$ (9.83)	\$ (3.30)	\$ (0.45)	\$ 0.40	\$ (2.69)	\$ 0.43
Extraordinary item.....	--	(0.14)	--	--	(0.10)	(0.10)	--
Net income (loss).....	\$ 0.17	\$ (9.97)	\$ (3.30)	\$ (0.45)	\$ 0.30	\$ (2.79)	\$ 0.43
Earnings (loss) per common share -- Assuming dilution:							
Income (loss) before extraordinary item.....	\$ 0.16	\$ (9.83)	\$ (3.30)	\$ (0.45)	\$ 0.38	\$ (2.69)	\$ 0.40
Extraordinary item.....	--	(0.14)	--	--	(0.10)	(0.10)	--
Net income (loss).....	\$ 0.16	\$ (9.97)	\$ (3.30)	\$ (0.45)	\$ 0.28	\$ (2.79)	\$ 0.40
Cash dividends declared per common share.....	\$ --	\$ 0.04	\$ 0.06	\$ 0.04	\$ --	\$ 0.02	\$ --
<b>CASH FLOW DATA:</b>							
Cash provided by operating activities before changes in working capital.....	\$ 138,727	\$ 117,500	\$ 152,196	\$ 67,872	\$ 76,816	\$ 161,140	\$ 88,431
Cash provided by operating activities.....	145,022	94,639	181,345	139,157	41,901	84,089	120,972
Cash used in investing activities.....	159,773	548,050	476,209	136,504	184,149	523,854	344,389
Cash provided by (used in) financing activities.....	18,967	363,797	277,985	(2,810)	231,349	512,144	219,520
Effect of exchange rate changes on cash.....	4,922	(4,726)	--	--	--	--	--
<b>BALANCE SHEET DATA (at end of period):</b>							
Total assets.....	\$ 850,533	\$ 812,615	\$ 952,784	\$952,784	\$860,597	\$ 949,068	\$572,335
Long-term debt, net of current maturities.....	964,097	919,076	508,992	508,992	220,149	508,950	268,431



Stockholders' equity (deficit).....	(217,544)	(248,568)	280,206	280,206	484,062	286,889	177,767
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## CHESAPEAKE ENERGY CORPORATION

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

## OVERVIEW

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

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEMBER 31,		
	2000	1999	1999	1998	1997
NET PRODUCTION DATA:					
Oil (MBbl).....	1,655	2,362	4,147	5,976	3,511
Gas (MMcf).....	58,086	52,706	108,610	94,421	59,236
Gas equivalent (MMcfe).....	68,016	66,878	133,492	130,277	80,302
OIL AND GAS SALES (\$ IN 000'S):					
Oil.....	\$ 40,588	\$ 31,335	\$ 66,413	\$ 75,877	\$ 68,079
Gas.....	146,926	88,743	214,032	181,010	130,331
	-----	-----	-----	-----	-----
Total oil and gas sales.....	\$187,514	\$120,078	\$280,445	\$256,887	\$198,410
	=====	=====	=====	=====	=====
AVERAGE SALES PRICE:					
Oil (\$ per Bbl).....	\$ 24.52	\$ 13.27	\$ 16.01	\$ 12.70	\$ 19.39
Gas (\$ per Mcf).....	\$ 2.53	\$ 1.68	\$ 1.97	\$ 1.92	\$ 2.20
Gas equivalent (\$ per Mcfe)....	\$ 2.76	\$ 1.80	\$ 2.10	\$ 1.97	\$ 2.47
OIL AND GAS COSTS (\$ PER MCFE):					
Production expenses and taxes.....	\$ .53	\$ .45	\$ .45	\$ .45	\$ .24
General and administrative....	\$ .09	\$ .11	\$ .10	\$ .15	\$ .14
Depreciation, depletion and amortization.....	\$ .73	\$ .71	\$ .71	\$ 1.13	\$ 1.59

## RESULTS OF OPERATIONS

Three Months Ended June 30, 2000 vs. June 30, 1999.

General. For the three months ended June 30, 2000 (the "Current Quarter"), Chesapeake realized net income of \$31.6 million, or \$0.22 per diluted common share. This compares to net income of \$8.1 million, or \$0.04 per diluted common share, in the three months ended June 30, 1999 (the "Prior Quarter").

Oil and Gas Sales. During the Current Quarter, oil and gas sales increased 47% to \$100.2 million from \$68.3 million in the Prior Quarter. For the Current Quarter, Chesapeake produced 34.1 Bcfe, consisting of 0.8 million barrels of oil and 29.3 Bcf of natural gas, compared to 1.1 million barrels of oil and 27.0 Bcf, or 33.6 Bcfe, in the Prior Quarter. Average oil prices realized were \$24.46 per barrel of oil in the Current Quarter compared to \$16.01 per barrel in the Prior Quarter, an increase of 53%. Average gas prices realized were \$2.76 per Mcf in the Current Quarter compared to \$1.88 per Mcf in the Prior Quarter, an increase of 47%.

For the Current Quarter, Chesapeake realized an average price of \$2.94 per Mcfe, compared to \$2.03 per Mcfe in the Prior Quarter. Chesapeake's hedging activities resulted in decreased oil and gas revenues of \$11.0 million, or \$0.32 per Mcfe, in the Current Quarter, compared to increased oil and gas revenues of \$2.9 million, or \$0.09 per Mcfe, in the Prior Quarter.

The following table shows Chesapeake's production by region for the Current Quarter and the Prior Quarter:

OPERATING AREAS	FOR THE THREE MONTHS ENDED JUNE 30,			
	2000		1999	
	MMCFE	PERCENT	MMCFE	PERCENT
Mid-Continent.....	19,265	57%	17,520	52%
Gulf Coast.....	8,650	25	10,683	32
Canada.....	3,579	10	3,134	9
Permian Basin.....	1,528	5	1,239	4
Other Areas.....	1,063	3	990	3
Total.....	34,085	100%	33,566	100%
	=====	===	=====	===

Natural gas production represented approximately 86% of Chesapeake's total production volume on an equivalent basis in the Current Quarter, compared to 81% in the Prior Quarter.

Oil and Gas Marketing Sales. Chesapeake realized \$34.2 million in oil and gas marketing sales to third parties in the Current Quarter, with corresponding oil and gas marketing expenses of \$33.1 million, for a margin of \$1.1 million. This compares to sales of \$12.6 million, expenses of \$11.7 million, and a margin of \$0.9 million in the Prior Quarter. The increase in marketing sales and cost of sales was due primarily to higher oil and gas prices in the Current Quarter as compared to the Prior Quarter and Chesapeake's initial marketing of oil which began in June 1999.

Production Expenses. Production expenses increased to \$12.6 million in the Current Quarter, a \$1.4 million increase from the \$11.2 million of production expenses incurred in the Prior Quarter. On a unit of production basis, production expenses were \$0.37 and \$0.33 per Mcfe in the Current and Prior Quarters, respectively. Chesapeake anticipates production expenses will not vary significantly from current levels during the remainder of 2000.

Production Taxes. Production taxes, which consist primarily of wellhead severance taxes, were \$5.7 million and \$2.8 million in the Current and Prior Quarters, respectively. On a per unit basis, production taxes were \$0.17 per Mcfe in the Current Quarter compared to \$0.08 per Mcfe in the Prior Quarter. The increase in the Current Quarter is due to higher oil and gas prices. In general, production taxes are calculated using value-based formulas that produce higher per unit costs when oil and gas prices are higher.

Oil and Gas Depreciation, Depletion and Amortization. Depreciation, depletion and amortization of oil and gas properties ("DD&A") for the Current Quarter was \$24.9 million, compared to \$24.2 million in the Prior Quarter. The DD&A rate per Mcfe increased from \$0.72 in the Prior Quarter to \$0.73 in the Current Quarter. Chesapeake expects the DD&A rate will increase moderately from current levels during the remainder of 2000 and is expected to increase further upon the completion of the Gothic acquisition.

Depreciation and Amortization of Other Assets. Depreciation and amortization of other assets ("D&A") was \$1.8 million in the Current Quarter compared to \$2.0 million in the Prior Quarter. Chesapeake anticipates D&A will continue at current levels during the remainder of 2000.

General and Administrative. General and administrative expenses ("G&A"), which are net of capitalized internal payroll and non-payroll expenses, were \$3.2 million in the Current Quarter compared to \$3.3 million in the Prior Quarter. Chesapeake capitalized \$1.5 million of internal costs in the Current Quarter directly related to Chesapeake's oil and gas exploration and development efforts, compared to \$0.8 million in the Prior Quarter. The increase in capitalized internal costs is primarily due to the addition of technical employees and other related costs. Chesapeake anticipates that G&A costs during the remainder of 2000 will remain at approximately the same level as the Current Quarter.

Interest and Other Income. Interest and other income for the Current Quarter was \$1.7 million compared to \$3.0 million in the Prior Quarter. The decrease is due primarily to a \$1.5 million gain on the sale of certain marketing assets located in the Mid-Continent in the Prior Quarter.

Interest Expense. Interest expense increased to \$21.8 million in the Current Quarter from \$20.3 million in the Prior Quarter as a result of lower capitalized interest and higher amounts of indebtedness. In addition to the interest expense reported, Chesapeake capitalized \$0.6 million of interest during the Current Quarter compared to \$1.0 million capitalized in the Prior Quarter.

Provision for Income Taxes. Chesapeake recorded income tax expense of \$1.4 million for the Current Quarter and \$0.3 million in the Prior Quarter. The income tax expense recorded in both the Current Quarter and Prior Quarter is related to Chesapeake's Canadian operations. At June 30, 2000, Chesapeake had a U.S. net operating loss carryforward of approximately \$640 million for regular federal income taxes which will expire in future years beginning in 2007. Management believes that it cannot be demonstrated at this time that it is more likely than not that the deferred income tax assets, comprised primarily of the U.S. net operating loss carryforwards, will be realized in future years, and therefore a valuation allowance of \$424.3 million has been recorded. However, management continues to evaluate the deferred tax assets. If oil and gas prices as well as improvements in Chesapeake's operating performance continue to strengthen and stabilize in future periods, all or a portion of the valuation allowance may be reversed.

Six Months Ended June 30, 2000 vs. June 30, 1999.

General. For the six months ended June 30, 2000 (the "Current Period"), Chesapeake realized net income of \$52.8 million, or \$0.36 per diluted common share. This compares to a net loss of \$3.8 million, or a net loss of \$0.12 per diluted common share after deducting preferred dividends of \$8.1 million, in the six months ended June 30, 1999 (the "Prior Period").

Oil and Gas Sales. During the Current Period, oil and gas sales increased to \$187.5 million from \$120.1 million, an increase of \$67.4 million, or 56%. For the Current Period, Chesapeake produced 1.7 million barrels of oil and 58.1 Bcf, compared to 2.4 million barrels of oil and 52.7 Bcf in the Prior Period. Average oil prices realized were \$24.52 per barrel in the Current Period compared to \$13.27 per barrel in the Prior Period, an increase of 85%. Average gas prices realized were \$2.53 per Mcf in the Current Period compared to \$1.68 per Mcf in the Prior Period, an increase of 51%.

For the Current Period, Chesapeake realized an average price of \$2.76 per Mcfe, compared to \$1.80 per Mcfe in the Prior Period. Chesapeake's hedging activities resulted in decreased oil and gas revenues of \$13.2 million, or \$0.19 per Mcfe, in the Current Period, compared to increased oil and gas revenues of \$3.2 million in the Prior Period.

The following table shows Chesapeake's production by region for the Current Period and the Prior Period:

OPERATING AREAS	FOR THE SIX MONTHS ENDED JUNE 30,			
	2000		1999	
	MMCFE	PERCENT	MMCFE	PERCENT
Mid-Continent.....	38,294	56%	33,828	51%
Gulf Coast.....	18,832	28	22,086	33
Canada.....	6,504	10	5,564	8
Permian Basin.....	3,127	4	2,469	4
Other areas.....	1,259	2	2,931	4
Total.....	68,016	100%	66,878	100%
	=====	===	=====	===

Natural gas production represented approximately 85% of Chesapeake's total production volume on an equivalent basis in the Current Period, compared to 79% in the Prior Period.

Oil and Gas Marketing Sales. Chesapeake realized \$61.6 million in oil and gas marketing sales to third parties in the Current Period, with corresponding oil and gas marketing expenses of \$59.7 million for a margin of \$1.9 million. This compares to sales of \$26.5 million and expenses of \$25.0 million in the Prior Period for a margin of \$1.5 million. The increase in marketing sales and cost of sales was due primarily to higher oil and gas prices in the Current Period as compared to the Prior Period and Chesapeake's initial marketing of oil which began in June 1999.

Production Expenses. Production expenses decreased to \$25.1 million in the Current Period, a \$0.1 million decrease from \$25.2 million incurred in the Prior Period. On a production unit basis, production expenses were \$0.37 and \$0.38 per Mcfe in the Current and Prior Periods, respectively.

Production Taxes. Production taxes, which consist primarily of wellhead severance taxes, were \$10.9 million and \$4.8 million in the Current and Prior Periods, respectively. This increase was the result of increased natural gas production and higher oil and gas prices. On a per unit basis, production taxes were \$0.16 per Mcfe in the Current Period compared to \$0.07 per Mcfe in the Prior Period.

Oil and Gas Depreciation, Depletion and Amortization. DD&A for the Current Period was \$49.4 million, compared to \$47.4 million in the Prior Period. This increase was caused by increased production as well as an increase in the DD&A rate per Mcfe from \$0.71 to \$0.73 in the Prior and Current Periods, respectively.

Depreciation and Amortization of Other Assets. D&A decreased to \$3.7 million in the Current Period compared to \$4.1 million in the Prior Period.

General and Administrative. G&A, which is net of capitalized internal payroll and non-payroll expenses, was \$6.2 million in the Current Period compared to \$7.3 million in the Prior Period. This decrease was primarily due to cost efficiencies that were generated throughout 1999 and an increase in capitalized internal costs between periods. Chesapeake capitalized \$3.4 million of internal costs in the Current Period directly related to Chesapeake's oil and gas exploration and development efforts, compared to \$2.0 million in the Prior Period. The increase in capitalized internal costs is primarily due to the addition of technical employees and other related costs.

Interest and Other Income. Interest and other income for the Current Period was \$2.9 million compared to \$3.8 million in the Prior Period. This decrease is due primarily to a \$1.5 million gain on the sale of certain marketing assets located in the Mid-Continent in the Prior Period.

Interest. Interest expense increased to \$42.7 million in the Current Period from \$40.1 million in the Prior Period as a result of lower capitalized interest and higher amounts of indebtedness. Chesapeake capitalized \$1.3 million of interest during the Current Period compared to \$2.2 million capitalized in the Prior Period.

Provision for Income Taxes. Chesapeake recorded income tax expense of \$1.5 million for the Current Period, compared to \$0.3 million in the Prior Period. The income tax expense in both Periods is entirely related to Chesapeake's operations in Canada. Management believes that it cannot be demonstrated that it is more likely than not that its domestic deferred income tax assets will be realizable in future years, and therefore a valuation allowance of \$424.3 million has been recorded. However, management continues to evaluate the deferred tax assets. If oil and gas prices as well as improvements in Chesapeake's operating performance continue to strengthen and stabilize in future periods, all or a portion of the valuation allowance may be reversed.

Years Ended December 31, 1999, 1998 and 1997.

General. In 1999, Chesapeake had net income of \$33.3 million, or \$0.16 per diluted common share, on total revenues of \$354.9 million. This compares to a net loss of \$933.9 million, or a loss of \$9.97 per diluted common share, on total revenues of \$377.9 million during the year ended December 31, 1998, and a net loss of \$233.4 million, or a loss of \$3.30 per diluted common share, on total revenues of \$302.8 million during the year ended December 31, 1997. The loss in 1998 was caused primarily by an \$826.0 million oil and gas property writedown recorded under the full-cost method of accounting and a \$55.0 million writedown of other assets. The loss in 1997 was caused primarily by a \$346 million oil and gas property writedown. See "Impairment of Oil and Gas Properties" and "Impairment of Other Assets".

Oil and Gas Sales. During 1999, oil and gas sales increased to \$280.4 million versus \$256.9 million in 1998 and \$198.4 million in 1997. In 1999, Chesapeake produced 133.5 Bcfe at a weighted average price

of \$2.10 per Mcfe, compared to 130.3 Bcfe produced in 1998 at a weighted average price of \$1.97 per Mcfe, and 80.3 Bcfe produced in 1997 at a weighted average price of \$2.47 per Mcfe.

The following table shows Chesapeake's production by region for 1999, 1998 and 1997:

OPERATING AREAS	FOR THE YEARS ENDED DECEMBER 31,					
	1999		1998		1997	
	MMCFE	PERCENT	MMCFE	PERCENT	MMCFE	PERCENT
Mid-Continent.....	69,946	52%	61,930	48%	17,685	22%
Gulf Coast.....	44,822	34	52,793	40	60,662	76
Canada.....	11,737	9	7,746	6	--	--
Permian Basin.....	5,408	4	3,939	3	1,656	2
All other areas.....	1,579	1	3,869	3	299	--
Total production.....	133,492	100%	130,277	100%	80,302	100%
	=====	===	=====	===	=====	===

Natural gas production represented approximately 81% of Chesapeake's total production volume on an equivalent basis in 1999, compared to 72% in 1998 and 74% in 1997.

For 1999, Chesapeake realized an average price per barrel of oil of \$16.01, compared to \$12.70 in 1998 and \$19.39 in 1997. Gas price realizations fluctuated from an average of \$1.92 per Mcf in 1998 and \$2.20 in 1997 to \$1.97 per Mcf in 1999. Chesapeake's hedging activities resulted in a decrease in oil and gas revenues of \$1.7 million in 1999, an increase in oil and gas revenues of \$11.3 million in 1998, and a decrease in oil and gas revenues of \$4.6 million in 1997.

Oil and Gas Marketing Sales. Chesapeake realized \$74.5 million in oil and gas marketing sales for third parties in 1999, with corresponding oil and gas marketing expenses of \$71.5 million, for a net margin of \$3.0 million. This compares to sales of \$121.1 million and \$104.4 million, expenses of \$119.0 million and \$103.8 million, and a margin of \$2.1 million and \$0.6 million in 1998 and 1997, respectively.

Production Expenses and Taxes. Production expenses and taxes, which include lifting costs, production taxes and ad valorem taxes, were \$59.6 million in 1999, compared to \$59.5 million and \$19.3 million in 1998 and 1997, respectively. On a unit of production basis, production expenses and taxes were \$0.45 per Mcfe in 1999 and 1998, and \$0.24 per Mcfe in 1997.

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

Chesapeake incurred an impairment of oil and gas properties charge of \$826 million in 1998. No such charge was incurred in 1999. The 1998 writedown was caused by a combination of several factors, including the acquisitions completed by Chesapeake during 1998, which were accounted for using the purchase method, and the significant decreases in oil and gas prices throughout 1998. Oil and gas prices used to value Chesapeake's proved reserves decreased from \$17.62 per Bbl of oil and \$2.29 per Mcf of gas at December 31, 1997, to \$10.48 per Bbl of oil and \$1.68 per Mcf of gas at December 31, 1998. Higher drilling and completion costs and the evaluation of certain leasehold, seismic and other exploration-related costs that were previously unevaluated were the remaining factors which contributed to the writedown in 1998.

Chesapeake incurred an impairment of oil and gas properties charge of \$346 million during 1997. The writedown in 1997 was caused by several factors, including declining oil and gas prices during the year, escalating drilling and completion costs, and poor drilling results primarily in Louisiana.

**Impairment of Other Assets.** Chesapeake incurred a \$55 million impairment charge during 1998. Of this amount, \$30 million related to Chesapeake's investment in preferred stock of Gothic Energy Corporation, and the remainder was related to certain of Chesapeake's gas processing and transportation assets located in Louisiana. No such charge was recorded in 1999 or 1997.

**Oil and Gas Depreciation, Depletion and Amortization.** DD&A of oil and gas properties was \$95.0 million, \$146.6 million and \$127.4 million during 1999, 1998 and 1997, respectively. The average DD&A rate per Mcfe, which is a function of capitalized costs, future development costs, and the related underlying reserves in the periods presented, was \$0.71 (\$0.73 in U.S. and \$0.52 in Canada), \$1.13 (\$1.17 in U.S. and \$0.43 in Canada) and \$1.59 in 1999, 1998 and 1997, respectively. Chesapeake did not have operations in Canada prior to 1998.

**Depreciation and Amortization of Other Assets.** D&A of other assets was \$7.8 million in 1999, compared to \$8.1 million in 1998 and \$4.4 million in 1997. The increase in 1998 compared to 1997 was caused by increased investments in depreciable buildings and equipment and increased amortization of debt issuance costs as a result of the issuance of senior notes in April 1998.

**General and Administrative.** G&A expenses, which are net of capitalized internal payroll and non-payroll expenses (see note 11 of the notes to our audited consolidated financial statements included at the end of this proxy statement/prospectus), were \$13.5 million in 1999, \$19.9 million in 1998 and \$10.9 million in 1997. The decrease in 1999 compared to 1998 was due primarily to various actions taken to lower corporate overhead, including staff reductions and office closings which occurred in late 1998 and early 1999. The increase in 1998 compared to 1997 is due primarily to increased personnel expenses required by Chesapeake's growth and industry wage inflation. Chesapeake capitalized \$2.7 million, \$5.3 million and \$5.3 million of internal costs in 1999, 1998 and 1997, respectively, directly related to Chesapeake's oil and gas exploration and development efforts.

**Interest and Other Income.** Interest and other income for 1999 was \$8.6 million compared to \$3.9 million in 1998, and \$87.7 million in 1997. The increase from 1998 to 1999 was due primarily to gains on sales of various non-core assets during 1999. During 1997, Chesapeake realized a gain on the sale of its Bayard common stock of \$73.8 million, the most significant component of interest and other income.

**Interest Expense.** Interest expense increased to \$81.1 million in 1999, compared to \$68.2 million in 1998 and \$29.8 million in 1997. The increase in 1999 is due primarily to a full year of interest on Chesapeake's \$500 million senior notes. The increase in 1998 compared to 1997 was due primarily to the issuance of \$500 million of senior notes in April 1998. In addition to the interest expense reported, Chesapeake capitalized \$3.5 million of interest during 1999, compared to \$6.5 million capitalized in 1998, and \$10.4 million capitalized in 1997.

**Provision (Benefit) for Income Taxes.** Chesapeake recorded income taxes of \$1.8 million in 1999 compared to \$0 in 1998 and an income tax benefit of \$17.9 million in 1997. The income tax expense recorded in 1999 is related entirely to Chesapeake's Canadian operations.

At December 31, 1999, Chesapeake had a U.S. net operating loss carryforward of approximately \$613 million for regular federal income taxes which will expire in future years beginning in 2007. Management believes that it cannot be demonstrated at this time that it is more likely than not that the deferred income tax assets, comprised primarily of the net operating loss carryforwards generated for U.S. purposes, will be realizable in future years, and therefore a valuation allowance of \$442 million was recorded.

#### RISK MANAGEMENT ACTIVITIES

See "Chesapeake Energy Corporation Quantitative and Qualitative Disclosures About Market Risk."

## LIQUIDITY AND CAPITAL RESOURCES

Chesapeake had working capital of \$2.3 million at June 30, 2000 and a cash balance (including restricted cash) of \$16.8 million. Chesapeake has a \$100 million revolving bank credit facility, which matures in July 2002, with a committed borrowing base of \$100 million. As of June 30, 2000, Chesapeake had borrowed \$63.0 million under this facility. Borrowings under the facility are secured by certain producing oil and gas properties and bear interest at variable rates, which averaged 10.0% per annum as of June 30, 2000.

In a series of private transactions from June 27, 2000 through September 21, 2000, CEMI purchased 99.8% of Gothic's \$104 million of 14 1/8% Series B senior secured discount notes for total consideration of \$80.8 million, comprised of \$23.3 million in cash and \$57.5 million of Chesapeake common stock (9,858,363 shares valued at \$5.825 per share), subject to adjustment. The discount notes accrete at a rate per annum of 14 1/8%, compounded semiannually to an aggregate principal amount of \$104.0 million at May 1, 2002. Thereafter, the discount notes accrue interest at the rate of 14 1/8% per annum, payable in cash semiannually in arrears on May 1 and November 1 of each year commencing November 1, 2002. The discount notes mature on May 1, 2006 and are secured by the stock of Gothic Production.

On September 1, 2000, we purchased \$20 million of the \$235 million of 11 1/8% senior secured notes issued by Gothic's Production Company for \$22 million of Chesapeake common stock (3,694,939 shares valued at \$6.0371 per share, subject to adjustment), in a private transaction. The senior secured notes mature on May 1, 2005, bear interest at the rate of 11 1/8% per annum, payable semiannually in cash on May 1 and November 1 of each year, and are secured by oil and gas interests owned by the issuer.

On September 8, 2000, we entered into an Agreement and Plan of Merger to acquire the common stock of Gothic for 4.0 million shares of Chesapeake common stock. Upon the closing of the transaction, Gothic's shareholders will own approximately 2.5% of Chesapeake's common stock. The total acquisition cost to Chesapeake, including the Gothic notes described above, will be approximately \$345 million, plus transaction expenses and adjusted for any working capital at the time of the merger. The Gothic acquisition is subject to approval by Gothic's shareholders and other closing conditions. Completion of the transaction is expected in January 2001.

At June 30, 2000, Chesapeake's senior notes represented \$919.2 million of its \$999.5 million of long-term liabilities. Debt ratings for the senior notes are B2 by Moody's Investors Service and B by Standard & Poor's Corporation as of August 1, 2000. On July 5, 2000, Standard & Poor's Corporation placed its ratings on Chesapeake on credit watch with positive implications. There are no scheduled principal payments required on any of the senior notes until March 2004, when \$150 million is due.

The senior note indentures restrict the ability of Chesapeake and its restricted subsidiaries to incur additional indebtedness. This restriction does not affect Chesapeake's ability to borrow under or expand its secured commercial bank facility. As of June 30, 2000, Chesapeake estimates that secured commercial bank indebtedness of \$152.2 million could have been incurred under the indentures. The indenture restrictions do not apply to borrowings incurred by CEMI, an unrestricted subsidiary.

The senior note indentures also limit Chesapeake's ability to make restricted payments (as defined), including the payment of preferred stock dividends, unless certain tests are met. From December 31, 1998 through March 31, 2000, Chesapeake was unable to meet the requirements to incur additional unsecured indebtedness, and consequently was not able to pay cash dividends on its 7% cumulative convertible preferred stock. Chesapeake had accumulated dividends in arrears of \$9.5 million related to its preferred stock as of June 30, 2000. Chesapeake was unable to pay a dividend on the preferred stock on May 1, 2000, the sixth consecutive dividend payment date on which dividends had not been paid. As a result of Chesapeake's failure to pay dividends for six quarterly periods, the holders of preferred stock are entitled to elect two new directors to the Board. Based on the Current Quarter financial results, Chesapeake was able to pay a dividend on the preferred stock on August 1, 2000, although the Board of Directors did not declare a dividend that would have been payable on that date. On September 22, 2000, the Board of



Directors declared a regular quarterly dividend and a special dividend in the amount of all accrued and unpaid dividends on the preferred stock, payable on November 1, 2000.

Between April 1, 2000 and June 30, 2000, Chesapeake engaged in unsolicited transactions in which a total of 24.7 million shares of common stock (newly issued shares), plus a cash payment of \$8.3 million, were exchanged for 2,364,363 shares of its issued and outstanding preferred stock with a liquidation value of \$118.2 million plus dividends in arrears of \$13.6 million. A total of 34.2 million shares of common stock, plus a cash payment of \$8.3 million, have been exchanged for 3,039,363 shares of preferred stock between January 1, 2000 and June 30, 2000. These transactions have reduced (i) the number of preferred shares from 4.6 million to 1.6 million, (ii) the liquidation value of the preferred stock from \$229.8 million to \$77.9 million, and (iii) dividends in arrears by \$16.8 million to \$9.5 million. A gain on redemption of all preferred shares exchanged through June 30, 2000 of \$11.9 million (\$1.5 million related to the quarter ended June 30, 2000) is reflected in net income available to common shareholders in determining basic earnings per share.

Between July 1 and August 16, 2000, Chesapeake engaged in additional transactions in which 9.2 million shares of common stock (newly issued shares) were exchanged for 933,000 shares of its issued and outstanding preferred stock with a liquidation value of \$46.7 million plus dividends in arrears of \$6.1 million. A \$5.3 million loss on the redemption of these preferred shares will be reflected in net income available to common shareholders in determining earnings per share in the third quarter.

Chesapeake believes it has adequate resources, including cash on hand and budgeted cash flow from operations, to fund its capital expenditure budget for exploration and development activities during 2000, which are currently estimated to be approximately \$160 million. However, low oil and gas prices or unfavorable drilling results could cause Chesapeake to reduce its drilling program, which is largely discretionary. Based on current oil and gas prices, Chesapeake expects to generate excess cash flow that will be available to fund acquisitions, reduce debt, make preferred stock dividend payments, acquire Gothic debt securities or a combination of the above.

If the Gothic merger is completed, holders of Gothic Production's senior secured notes will have the right, but not the obligation, to require Chesapeake to repurchase their notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest to the date of repurchase. Chesapeake presently holds \$20 million of the \$235 million principal amount of senior secured notes outstanding. Bear, Stearns & Co. Inc. has agreed to provide a \$275 million standby commitment, consisting of a \$175 million term credit facility and a \$100 million revolving credit facility. The term credit facility may be used to repurchase any 11 1/8% senior secured notes tendered to Chesapeake. If used, the revolving credit facility will replace Chesapeake's existing revolving credit facility. Chesapeake has incurred costs of approximately \$3.2 million in obtaining the commitment and will incur an additional \$2.75 million of costs if the facility is used.

Six Months Ended June 30, 2000 and 1999.

**Cash Flows From Operating Activities.** Chesapeake's cash provided by operating activities increased 76% to \$83.9 million during the Current Period compared to \$47.6 million during the Prior Period. The increase was due primarily to higher oil and gas prices realized during the Current Period.

**Cash Flows From Investing Activities.** Cash used in investing activities increased to \$130.6 million during the Current Period from \$67.3 million in the Prior Period. During the Current Period Chesapeake expended approximately \$68.3 million to initiate drilling on 66 gross (35.6 net) wells and invested approximately \$10.6 million in leasehold acquisitions. This compares to \$68.3 million to initiate drilling on 80 gross (48.9 net) wells and \$11.1 million to purchase leasehold in the Prior Period. During the Current Period, Chesapeake had acquisitions of oil and gas properties of \$25.0 million, divestitures of oil and gas properties of \$1.4 million, and a cash payment of \$22.4 million related to the acquisition of the Gothic Discount Notes. This compares to acquisitions of \$6.5 million and divestitures of \$17.4 million in the Prior Period.

Cash Flows From Financing Activities. There was \$20.3 million of cash provided by financing activities in the Current Period, compared to \$14.2 million in the Prior Period. The activity in the Current Period and the Prior Period reflects the net increase in borrowings under Chesapeake's commercial bank credit facility of \$19.5 million and \$14.0 million in the Current and Prior Periods, respectively, and cash received through the exercise of stock options.

Years Ended December 31, 1999, 1998 and 1997.

Cash Flows from Operating Activities. Cash provided by operating activities (inclusive of changes in working capital) was \$145.0 million in 1999, compared to \$94.6 million in 1998 and \$181.3 million in 1997. The increase of \$50.4 million from 1998 to 1999 was due primarily to increased oil and gas revenues. The decrease of \$86.7 million from 1997 to 1998 was due primarily to reduced operating income resulting from significant decreases in average oil and gas prices between periods, as well as significant increases in G&A expenses and interest expense.

Cash Flows from Investing Activities. Cash used in investing activities decreased to \$159.8 million in 1999, compared to \$548.1 million in 1998 and \$476.2 million in 1997. During 1999, Chesapeake invested \$153.3 million for exploration and development drilling, \$49.9 million for the acquisition of oil and gas properties, and received \$45.6 million related to divestitures of oil and gas properties. During 1998, \$279.9 million was used to acquire certain oil and gas properties and companies with oil and gas reserves. However, the increase in cash used to acquire oil and gas properties was partially offset by reduced expenditures during 1998 for exploratory and developmental drilling. During 1998 and 1997, Chesapeake invested \$259.7 million and \$471.0 million, respectively, for exploratory and developmental drilling. Also during 1998, Chesapeake sold its 19.9% stake in Pan East Petroleum Corp. to POCO Petroleum, Ltd. for approximately \$21.2 million. During 1997, Chesapeake received net proceeds from the sale of its investment in Bayard common stock of approximately \$90.4 million.

Cash Flows from Financing Activities. Cash provided by financing activities decreased to \$19.0 million in 1999, compared to \$363.8 million in 1998, and \$278.0 million in 1997. During 1999, Chesapeake made additional borrowings under its commercial bank credit facility of \$116.5 million, and had payments under this facility of \$98.0 million. During 1998, Chesapeake retired \$85 million of debt assumed at the completion of the DLB Oil & Gas, Inc. acquisition, \$120 million of debt assumed at the completion of the Hugoton Energy Corporation acquisition, \$90 million of senior notes, and \$170 million of borrowings made under its commercial bank credit facilities. Also during 1998, Chesapeake issued \$500 million in senior notes and \$230 million in preferred stock. During 1997, Chesapeake issued \$300 million of senior notes.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

On June 15, 1998, the Financial Accounting Standards Board issued FAS No. 133, Accounting for Derivative Instruments and Hedging Activities. FAS 133 establishes a new model for accounting for derivatives and hedging activities and supersedes and amends a number of existing standards. FAS 133, as amended by FAS 137 and FAS 138, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

FAS 133 standardizes the accounting for derivative instruments by requiring that all derivatives be recognized as assets and liabilities and measured at fair value. The accounting for changes in the fair value of derivatives (gains and losses) depends on (i) whether the derivative is designated and qualifies as a hedge, and (ii) the type of hedging relationship that exists. Changes in the fair value of derivatives that are not designated as hedges or that do not meet the hedge accounting criteria in FAS 133 are required to be reported in earnings. In addition, all hedging relationships must be designated, reassessed and documented pursuant to the provisions of FAS 133. Chesapeake has not yet determined the impact that adoption of FAS 133 will have on the financial statements. However, Chesapeake believes that its commodity derivatives will be designated as hedges in accordance with the relevant accounting criteria.

## CHESAPEAKE ENERGY CORPORATION

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

## COMMODITY PRICE RISK

Chesapeake's results of operations are highly dependent upon the prices received for oil and natural gas production.

## COMMODITY HEDGING ACTIVITIES

Periodically Chesapeake utilizes hedging strategies to hedge the price of a portion of its future oil and gas production. These strategies include:

- (1) swap arrangements that establish an index-related price above which Chesapeake pays the counterparty and below which Chesapeake is paid by the counterparty,
- (2) the purchase of index-related puts that provide for a "floor" price below which the counterparty pays Chesapeake the amount by which the price of the commodity is below the contracted floor,
- (3) the sale of index-related calls that provide for a "ceiling" price above which Chesapeake pays the counterparty the amount by which the price of the commodity is above the contracted ceiling, and
- (4) basis protection swaps, which are arrangements that guarantee the price differential of oil or gas from a specified delivery point or points.

Results from commodity hedging transactions are reflected in oil and gas sales to the extent related to Chesapeake's oil and gas production. Chesapeake only enters into commodity hedging transactions related to Chesapeake's oil and gas production volumes or CEMI's physical purchase or sale commitments. Gains or losses on crude oil and natural gas hedging transactions are recognized as price adjustments in the months of related production.

As of June 30, 2000, Chesapeake had the following open natural gas swap arrangements designed to hedge a portion of Chesapeake's domestic gas production for periods after June 2000:

MONTHS - - - - -	VOLUME (MMBTU) -----	NYMEX-INDEX STRIKE PRICE (PER MMBTU) -----
July 2000.....	2,790,000	3.03
August 2000.....	2,790,000	3.03
September 2000.....	2,100,000	3.07
October 2000.....	1,240,000	2.55

If the swap arrangements listed above had been settled on June 30, 2000, Chesapeake would have incurred a loss of \$13.2 million. Subsequent to June 30, 2000, Chesapeake settled the July 2000 natural gas swaps for a loss of \$4.5 million, which will be recognized as a price adjustment in July. Additionally, Chesapeake has closed hedges on 920,000 MMBtu of the August through October swaps which resulted in a loss of \$0.6 million. This loss will be recognized as price adjustments from August through October 2000.

On June 2, 2000, Chesapeake entered into a natural gas basis protection swap transaction for 13,500,000 MMBtu for the period of January 2001 through March 2001. This transaction requires that the counterparty pay Chesapeake if the NYMEX price exceeds the Houston Ship Channel Beaumont/Texas Index by more than \$0.0675 for each of the related months of production. If the NYMEX price less \$0.0675 does not exceed the Houston Ship Channel Beaumont/Texas Index for each month, Chesapeake

will pay the counterparty. Gains or losses on basis swap transactions are recognized as price adjustments in the month of related production.

As of June 30, 2000, Chesapeake had the following open crude oil swap arrangements designed to hedge a portion of Chesapeake's domestic crude oil production for periods after June 2000:

MONTHS	MONTHLY VOLUME (BBLs)	NYMEX-INDEX STRIKE PRICE (PER BBL)
- - - - -	- - - - -	- - - - -
July 2000.....	125,000	\$28.42
August 2000.....	125,000	28.42
September 2000.....	125,000	28.42
October 2000.....	125,000	28.42
November 2000.....	125,000	28.42
December 2000.....	125,000	28.42

If the swap arrangements listed above had been settled on June 30, 2000, Chesapeake would have incurred a loss of \$1.9 million.

Chesapeake has also closed transactions designed to hedge a portion of its domestic oil and natural gas production as of June 30, 2000. The net unrecognized losses resulting from these transactions, \$1.4 million as of June 30, 2000, will be recognized as price adjustments in the months of related production. These hedging losses are set forth below (\$ in thousands):

MONTH	HEDGING GAINS (LOSSES)		
	GAS	OIL	TOTAL
- - - - -	- - - - -	- - - - -	- - - - -
July 2000.....	\$ (422)	\$(231)	\$ (653)
August 2000.....	(432)	--	(432)
September 2000.....	(149)	--	(149)
October 2000.....	(196)	--	(196)
	-----	-----	-----
	<u>\$ (1,199)</u>	<u>\$(231)</u>	<u>\$ (1,430)</u>
	=====	=====	=====

In addition to commodity hedging transactions related to Chesapeake's oil and gas production, CEMI periodically enters into various hedging transactions designed to hedge against physical purchase and sale commitments made by CEMI. Gains or losses on these transactions are recorded as adjustments to oil and gas marketing sales in the consolidated statements of operations and are not considered by management to be material.

#### INTEREST RATE RISK

Chesapeake also utilizes hedging strategies to manage fixed-interest rate exposure. Through the use of a swap arrangement, Chesapeake has reduced its interest expense by \$2.7 million from May 1998 through June 2000. During the Current Quarter, Chesapeake's interest rate swap resulted in a \$36,000 increase of interest expense. The terms of the swap agreement are as follows:

MONTHS	NOTIONAL AMOUNT	FIXED RATE	FLOATING RATE
- - - - -	- - - - -	- - - - -	- - - - -
May 1998 -- April 2001.....	\$230,000,000	7%	Average of three-month Swiss Franc LIBOR, Deutsche Mark and Australian Dollar plus 300 basis points
May 2001 -- April 2008.....	\$230,000,000	7%	Three-month LIBOR (USD) plus 300 basis points

If the floating rate is less than the fixed rate, the counterparty will pay Chesapeake accordingly. If the floating rate exceeds the fixed rate, Chesapeake will pay the counterparty. The interest rate swap agreement contains a "knockout provision" whereby the agreement will terminate on or after May 1, 2001 if the average closing price for the previous twenty business days for the shares of Chesapeake's common

stock is greater than or equal to \$7.50 per share. The agreement also provides for a maximum floating rate of 8.5% from May 2001 through April 2008.

As of June 30, 2000, based upon prevailing interest rates, the present value of Chesapeake's estimated future payments under the interest rate swap agreement, without ascribing any value to the knock-out provision, was \$17.7 million. However, because of the knock-out provision discussed above and the volatility of interest rates, Chesapeake does not believe that this worst-case scenario is a fair measure of the market value of the swap agreement and, therefore, would not pay this amount to cancel the transaction. Results from interest rate hedging transactions are reflected as adjustments to interest expense in the corresponding months covered by the swap agreement.

The table below presents principal cash flows and related weighted average interest rates by expected maturity dates. The fair value of the long-term debt has been estimated based on quoted market prices.

	JUNE 30, 2000							
	YEARS OF MATURITY							
	2000	2001	2002	2003	2004	THEREAFTER	TOTAL	FAIR VALUE
	(\$ IN MILLIONS)							
<b>LIABILITIES:</b>								
Long-term debt, including current portion -- fixed rate.....	\$0.4	\$0.8	\$ 0.6	\$--	\$150.0	\$770.0	\$921.8	\$867.7
Average interest rate.....	9.1%	9.1%	9.1%	--	7.9%	9.3%	9.1%	--
Long-term debt -- variable rate.....	\$ --	\$--	\$63.0	\$--	\$ --	\$ --	\$ 63	\$ 63.0
Average interest rate.....	--	--	10.0%	--	--	--	10%	--

## CHESAPEAKE'S MANAGEMENT

## CHESAPEAKE'S DIRECTORS

Aubrey K. McClendon, age 41, has served as our Chairman of the Board, Chief Executive Officer and a director since co-founding Chesapeake in 1989. From 1982 to 1989, Mr. McClendon was an independent producer of oil and gas in affiliation with Tom L. Ward, our President and Chief Operating Officer. Mr. McClendon is a member of the Board of Visitors of the Fuqua School of Business at Duke University. Mr. McClendon is a 1981 graduate of Duke University.

Tom L. Ward, age 41, has served as our President, Chief Operating Officer and a director since co-founding Chesapeake in 1989. From 1982 to 1989, Mr. Ward was an independent producer of oil and gas in affiliation with Aubrey K. McClendon, our Chairman and Chief Executive Officer. Mr. Ward is a member of the Board of Trustees of Anderson University in Anderson, Indiana. Mr. Ward graduated from the University of Oklahoma in 1981.

Breene M. Kerr, age 71, has been member of our board of a directors since 1993. He is President of Brookside Company, Easton, Maryland. In 1969, Mr. Kerr founded Kerr Consolidated, Inc., which was sold in 1996. In 1969, Mr. Kerr co-founded the Resource Analysis and Management Group and remained its senior partner until 1982. From 1967 to 1969, he was Vice President of Kerr-McGee Chemical Corporation. From 1951 through 1967, Mr. Kerr worked for Kerr-McGee Corporation as a geologist and land manager. Mr. Kerr has served as chairman of the Investment Committee for the Massachusetts Institute of Technology and is a life member of the Corporation (Board of Trustees) of that university. He served as a director of Kerr-McGee Corporation from 1957 to 1981. Mr. Kerr currently is a trustee of the Brookings Institution in Washington, D.C., and has been an associate director since 1987 of Aven Gas & Oil, Inc., an oil and gas property management company located in Oklahoma City. Mr. Kerr graduated from the Massachusetts Institute of Technology in 1951.

Edgar F. Heizer, Jr., age 71, has been a member of our board of directors since 1993. From 1985 to the present, Mr. Heizer has been a private venture capitalist. He founded Heizer Corporation, a publicly traded business development company, in 1969 and served as Chairman and Chief Executive Officer from 1969 until 1986, when Heizer Corporation was reorganized into a number of public and private companies. Mr. Heizer was Assistant Treasurer of the Allstate Insurance Company from 1962 to 1969 in charge of Allstate's venture capital operations. He was employed by Booz, Allen and Hamilton from 1958 to 1962, Kidder, Peabody & Co. from 1956 to 1958, and Arthur Andersen & Co. from 1954 to 1956. He serves on the advisory board of the Kellogg School of Management at Northwestern University. Mr. Heizer is a director of Material Science Corporation, a New York Stock Exchange listed company in Elk Grove, Illinois, and several private companies. Mr. Heizer graduated from Northwestern University in 1951 and from Yale University Law School in 1954.

Frederick B. Whittemore, age 69, has been a member of our board of directors since 1993. Mr. Whittemore has been an advisory director of Morgan Stanley Dean Witter & Co. since 1989 and was a managing director or partner of the predecessor firms of Morgan Stanley Dean Witter & Co. from 1967 to 1989. He was Vice-Chairman of the American Stock Exchange from 1982 to 1984. Mr. Whittemore is a director of Partner Reinsurance Company, Bermuda; Maxcor Financial Group Inc., New York; SunLife of New York, New York; KOS Pharmaceuticals, Inc., Miami, Florida; and Southern Pacific Petroleum, Australia, NL. Mr. Whittemore graduated from Dartmouth College in 1953 and from the Amos Tuck School of Business Administration in 1954.

Shannon T. Self, age 43, has been a member of our board of directors since 1993. He is a shareholder in the law firm of Self, Giddens & Lees, Inc., a professional corporation, in Oklahoma City, which he co-founded in 1991. Mr. Self was an associate and shareholder in the law firm of Hastie and Kirschner, Oklahoma City, from 1984 to 1991 and was employed by Arthur Young & Co. from 1979 to 1980. Mr. Self is a member of the Visiting Committee of Northwestern University School of Law and for part of 1999 was a director of The Rock Island Group, a private computer firm in Oklahoma City. Mr. Self is a

Certified Public Accountant. He graduated from the University of Oklahoma in 1979 and from Northwestern University Law School in 1984.

#### CHESAPEAKE'S OFFICERS

Executive Officers. In addition to Messrs. McClendon and Ward, the following are also executive officers of Chesapeake.

Marcus C. Rowland, age 48, was appointed as our Executive Vice President in March 1998 and has been our Chief Financial Officer since 1993. He served as our Senior Vice President from September 1997 to March 1998 and as our Vice President -- Finance from 1993 until 1997. From 1990 until his association with Chesapeake, Mr. Rowland was Chief Operating Officer of Anglo-Suisse, L.P. assigned to the White Nights Russian Enterprise, a joint venture of Anglo-Suisse, L.P. and Phibro Energy Corporation, a major foreign operation which was granted the right to engage in oil and gas operations in Russia. Prior to his association with White Nights Russian Enterprise, Mr. Rowland owned and managed his own oil and gas company and prior to that was Chief Financial Officer of a private exploration company in Oklahoma City from 1981 to 1985. Mr. Rowland is a Certified Public Accountant. Mr. Rowland graduated from Wichita State University in 1975.

Martha A. Burger, age 47, has served as our Treasurer since 1995, as our Senior Vice President -- Human Resources since March 2000 and as our Secretary since November 1999. She was our Vice President -- Human Resources from 1998 until March 2000 and our Human Resources Manager from 1996 to 1998. From 1994 to 1995, she served in various accounting positions with Chesapeake including Assistant Controller -- Operations. From 1989 to 1993, Ms. Burger was employed by Hadson Corporation as Assistant Treasurer and from 1993 to 1994 served as Vice President and Controller of Hadson Corporation. Prior to joining Hadson Corporation, Ms. Burger was employed by The Phoenix Resource Companies, Inc. as Assistant Treasurer and by Arthur Andersen & Co. Ms. Burger is a Certified Public Accountant and graduated from the University of Central Oklahoma in 1982 and from Oklahoma City University in 1992.

Michael A. Johnson, age 35, has served as our Senior Vice President -- Accounting since March 2000. He served as our Vice President of Accounting and Financial Reporting from March 1998 to March 2000 and as Assistant Controller from 1993 to 1998. From 1991 to 1993 Mr. Johnson served as Project Manager for Phibro Energy Production, Inc., a Russian joint venture. From 1987 to 1991 he served as audit manager for Arthur Andersen & Co. Mr. Johnson is a Certified Public Accountant and graduated from the University of Texas at Austin in 1987.

Other Officers. Other officers of Chesapeake include the following:

Steven C. Dixon, age 42, has been our Senior Vice President -- Operations since 1995 and served as our Vice President -- Exploration from 1991 to 1995. Mr. Dixon was a self-employed geological consultant in Wichita, Kansas from 1983 through 1990. He was employed by Beren Corporation in Wichita, Kansas from 1980 to 1983 as a geologist. Mr. Dixon graduated from the University of Kansas in 1980.

J. Mark Lester, age 47, has been our Senior Vice President -- Exploration since 1995 and served as our Vice President -- Exploration from 1989 to 1995. From 1986 to 1989, Mr. Lester was self-employed and acted as a consultant to Messrs. McClendon and Ward. He was employed by various independent oil companies in Oklahoma City from 1980 to 1986, and was employed by Union Oil Company of California from 1977 to 1980 as a geophysicist. Mr. Lester graduated from Purdue University in 1975 and in 1977.

Henry J. Hood, age 40, was appointed as our Senior Vice President -- Land and Legal in 1997 and served as our Vice President -- Land and Legal from 1995 to 1997. We retained Mr. Hood as a consultant during the two years prior to his joining Chesapeake, and he was associated with the law firm of White, Coffey, Galt & Fite from 1992 to 1995. Mr. Hood was associated with or a partner of the law firm of Watson & McKenzie from 1987 to 1992. Mr. Hood is a member of the Oklahoma and Texas Bar Associations. Mr. Hood graduated from Duke University in 1982 and from the University of Oklahoma College of Law in 1985.

Thomas L. Winton, age 53, has served as our Senior Vice President -- Information Technology and Chief Information Officer since July 1998. From 1985 until his association with Chesapeake, Mr. Winton served as the Director, Information Services Department, at Union Pacific Resources Company. Prior to that period Mr. Winton held the positions of Regional Manager -- Information Services from 1984 until 1985 and Manager -- Technical Applications Planning and Development from 1980 until 1984 with UPRC. Mr. Winton also served as an analyst and supervisor in the Operations Research Division, Conoco Inc., from 1973 until 1980. Mr. Winton graduated from Oklahoma Christian University in 1969, Creighton University in 1973 and the University of Houston in 1980. Mr. Winton also completed the Tuck Executive Program, Amos Tuck School of Business, Dartmouth College in 1987.

Douglas J. Jacobson, age 46, has served as our Senior Vice President -- Acquisitions & Divestitures since August 1999. Prior to joining Chesapeake, Mr. Jacobson was employed by Samson Investment Company from 1980 until August 1999, where he served as Senior Vice President -- Project Development and Marketing from 1996 until 1999. Mr. Jacobson has served on various Oklahoma legislative commissions intended to address issues in the oil and gas industry, including the Commission of Oil and Gas Production Practices and the Natural Gas Policy Commission. Mr. Jacobson is a Certified Public Accountant and graduated from John Brown University in 1976 and from the University of Arkansas in 1977.

Thomas S. Price, Jr., age 48, has served as our Senior Vice President -- Corporate Development since March 2000. Mr. Price previously served as our Vice President -- Corporate Development from 1992 to March 2000 and was a consultant to Chesapeake during the prior two years. He was employed by Kerr-McGee Corporation, Oklahoma City, from 1988 to 1990 and by Flag-Redfern Oil Company from 1984 to 1988. Mr. Price is Vice Chairman of the Mid-Continent Oil and Gas Association and a member of the Petroleum Investor Relations Association and the National Investor Relations Institute. Mr. Price graduated from the University of Central Oklahoma in 1983, from the University of Oklahoma in 1989 and from the American Graduate School of International Management in 1992.

James C. Johnson, age 42, was appointed as President of Chesapeake Energy Marketing, Inc., a wholly-owned subsidiary of ours, in January 2000. He previously served as Vice President -- Contract Administration from 1997 to January 2000 and as our Manager -- Contract Administration from 1996 to 1997. From 1980 to 1996, Mr. Johnson held various gas marketing and land positions with Enogex, Inc., Delhi Gas Pipeline Corporation, TXO Production Corp. and Gulf Oil Corporation. Mr. Johnson is a member of the Natural Gas Association of Oklahoma and graduated from the University of Oklahoma in 1980.

Stephen W. Miller, age 43, has served as our Vice President -- Operations since 1996 and served as our District Manager -- College Station District from 1994 to 1996. Mr. Miller held various engineering positions in the oil and gas industry from 1980 to 1993. Mr. Miller is a registered Professional Engineer in Texas, is a member of the Society of Petroleum Engineers and graduated from Texas A & M University in 1980.



## CHESAPEAKE'S EXECUTIVE COMPENSATION

## SUMMARY COMPENSATION TABLE

In 1997 we changed our fiscal year end to December 31 from June 30. The following table sets forth for the fiscal years ended December 31, 1999 and 1998, the transition period for the six months ended December 31, 1997 and the fiscal year ended June 30, 1997 the compensation earned in each period by (i) our chief executive officer, and (ii) our four other most highly compensated executive officers:

NAME AND PRINCIPAL POSITION	PERIOD ENDING	ANNUAL COMPENSATION			SECURITIES UNDERLYING OPTION AWARDS (# OF SHARES)(b)	ALL OTHER COMPENSATION(c)
		SALARY	BONUS	OTHER ANNUAL COMPENSATION(a)		
Aubrey K. McClendon.....	12/31/99	\$350,000	\$300,000	\$137,029	500,000	\$19,500
Chairman of the Board	12/31/98	\$350,000	\$325,000	\$115,429	1,505,808(d)	\$10,000
and Chief Executive Officer	12/31/97	\$150,000	\$200,000	\$ 92,625	457,800(d)	\$ --
	6/30/97	\$250,000	\$310,000	\$ 76,950	463,000(d)	\$11,050
Tom L. Ward.....	12/31/99	\$350,000	\$300,000	\$113,331	500,000	\$20,000
President and Chief Operating Officer	12/31/98	\$350,000	\$325,000	\$115,977	1,505,808(d)	\$10,000
	12/31/97	\$150,000	\$200,000	\$ 93,026	457,800(d)	\$ --
	6/30/97	\$250,000	\$310,000	\$ 77,908	463,000(d)	\$13,700
Marcus C. Rowland.....	12/31/99	\$262,500	\$110,000	\$ 41,428	125,000	\$ 6,000
Executive Vice President and Chief Financial Officer	12/31/98	\$250,000	\$175,000	(e)	397,476(d)	\$10,000
	12/31/97	\$112,500	\$100,000	(e)	131,600(d)	\$ --
	6/30/97	\$185,000	\$155,000	(e)	36,000(d)	\$ 9,500
Steven C. Dixon.....	12/31/99	\$190,000	\$ 55,000	(e)	40,000	\$11,500
Senior Vice President -- Operations	12/31/98	\$190,000	\$110,000	(e)	206,120(d)	\$10,000
	12/31/97	\$ 87,500	\$ 50,000	(e)	92,000(d)	\$ --
	6/30/97	\$145,000	\$105,000	(e)	30,000(d)	\$11,500
J. Mark Lester.....	12/31/99	\$177,500	\$ 55,000	(e)	40,000	\$11,980
Senior Vice President -- Exploration	12/31/98	\$175,000	\$100,000	(e)	153,691(d)	\$10,000
	12/31/97	\$ 80,000	\$ 40,000	(e)	69,700(d)	\$ 2,660
	6/30/97	\$132,500	\$ 70,000	(e)	19,500(d)	\$10,400

- (a) Represents the cost of personal benefits provided by Chesapeake, including for fiscal year 1999 personal accounting support (\$65,175 for Messrs. McClendon and Ward), personal vehicle (\$18,000 for Messrs. McClendon and Ward and \$12,000 for Mr. Rowland), travel allowance (\$50,000 for Mr. McClendon, \$25,904 for Mr. Ward and \$25,000 for Mr. Rowland) and country club membership dues (\$3,854 for Mr. McClendon, \$4,252 for Mr. Ward and \$4,428 for Mr. Rowland).
- (b) No awards of restricted stock or payments under long-term incentive plans were made to any of the named executives in any period covered by the table.
- (c) Represents our matching contributions to the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan.
- (d) Includes both (i) option grants which were canceled and (ii) replacement options which were granted at 60% of the original number of options granted.
- (e) Other annual compensation did not exceed the lesser of \$50,000 (\$25,000 for the transition period) or 10% of the executive officer's salary and bonus during the period.

## STOCK OPTIONS GRANTED DURING 1999

The following table sets forth information concerning options to purchase common stock we granted during 1999 to the executive officers named in the Summary Compensation Table. Amounts represent stock options granted under our 1994 and 1999 stock option plans and include both incentive and non-qualified stock options. One-fourth of each option grant becomes exercisable on each of the first four

grant date anniversaries. The exercise price of each option represents the market price of the common stock on the date of grant.

NAME	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATE OF STOCK PRICE APPRECIATION FOR OPTION TERM(a)	
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN YEAR ENDED 12/31/99	EXERCISE PRICE PER SHARE	EXPIRATION DATE	5%	10%
Aubrey K. McClendon.....	500,000	17.9%	\$0.94	3/5/09	\$295,580	\$749,059
Tom L. Ward.....	500,000	17.9%	\$0.94	3/5/09	\$295,580	\$749,059
Marcus C. Rowland.....	125,000	4.5%	\$0.94	3/5/09	\$ 73,895	\$187,265
Steven C. Dixon.....	40,000	1.4%	\$0.94	3/5/09	\$ 23,646	\$ 59,925
J. Mark Lester.....	40,000	1.4%	\$0.94	3/5/09	\$ 23,646	\$ 59,925

(a) The assumed annual rates of stock price appreciation of 5% and 10% are set by the Securities and Exchange Commission and are not intended as a forecast of possible future appreciation in stock prices.

#### AGGREGATED OPTION EXERCISES IN 1999 AND DECEMBER 31, 1999 OPTION VALUES

The following table sets forth information about options exercised by the named executive officers during 1999 and the unexercised options to purchase common stock held by them at December 31, 1999.

NAME	SHARES ACQUIRED ON EXERCISE		NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT 12/31/99		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT 12/31/99(a)	
	EXERCISE	VALUE REALIZED(b)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Aubrey K. McClendon.....	--	--	722,953	1,629,355	\$585,434	\$2,131,694
Tom L. Ward.....	315,000	\$329,544	722,953	1,629,355	\$585,434	\$2,131,694
Marcus C. Rowland.....	139,871	\$305,642	--	423,105	--	\$ 552,631
Steven C. Dixon.....	--	--	416,434	194,586	\$504,871	\$ 250,833
J. Mark Lester.....	--	--	115,827	155,264	\$151,094	\$ 201,680

(a) At December 31, 1999, the closing price of the common stock on the New York Stock Exchange was \$2.38. "In-the-money options" are stock options with respect to which the market value of the underlying shares of common stock exceeded the exercise price at December 31, 1999. The values shown were determined by subtracting the aggregate exercise price of such options from the aggregate market value of the underlying shares of common stock on December 31, 1999.

(b) Represents amounts determined by subtracting the aggregate exercise price of such options from the aggregate market value of the underlying shares of common stock on the exercise date.

#### EMPLOYMENT AGREEMENTS

We have entered into employment agreements with Messrs. McClendon and Ward, each of which provides, among other things, for an annual base salary of not less than \$350,000, bonuses at the discretion of our board of directors, eligibility for stock options and benefits, including an automobile and travel allowance, club membership and personal accounting support. Each agreement has a term of five years commencing July 1, 1998, which term is automatically extended for one additional year on each June 30 unless one of the parties provides 30 days prior notice of non-extension. In addition, for each calendar year during which the employment agreements are in effect, Messrs. McClendon and Ward each agree to hold shares of our common stock having an aggregate investment value equal to 500% of his annual base salary and bonus.

Under the employment agreements, Messrs. McClendon and Ward are permitted to participate in all of the wells spudded by or on behalf of Chesapeake during each calendar quarter. In order to participate, at least 30 days prior to the beginning of a calendar quarter the executive must notify the disinterested members of our compensation committee whether the executive elects to participate and, if so, the

percentage working interest the executive will take in each well spudded by or on behalf of Chesapeake during such quarter. The participation election by Messrs. McClendon or Ward may not exceed a 2.5% working interest in a well and is not effective for any well where our working interest after elections by Messrs. McClendon and Ward to participate would be reduced to below 12.5%. Once an executive elects to participate, the percentage cannot be adjusted during the calendar quarter without the prior written consent of the disinterested directors, and no such adjustment has ever been requested or granted. For each well in which the executive participates, we bill to the executive an amount equal to the executive's participation percentage multiplied by the costs of drilling and operating incurred in drilling the well, together with leasehold costs in an amount determined to approximate what third parties pay for similar leasehold in the area of the well. Payment is due within 150 days for invoices received prior to June 30, 2000 and within 90 days for invoices received subsequent to such date. The executive also receives a proportionate share of revenue from the well less certain charges by Chesapeake for marketing the production. As a result of marketing arrangements with other participants in our wells to correct the timing of the receipt of revenues, we have advanced to the executives an amount equal to two months production on each of the wells based on a six-month trailing average of production revenue. As a result of fluctuations in the price and volume of oil and natural gas from the wells, such advance now exceeds two months production. We and the executives have agreed that such amount will bear interest, and have also agreed to a payment schedule to reduce such advance to equal one month's production by December 31, 2000. In the event an executive is not in compliance with the foregoing payment obligations, the right to participate in our wells is automatically suspended until the executive is in compliance.

Messrs. McClendon and Ward have agreed they will not engage in oil and gas operations individually except pursuant to the aforementioned participation in our wells and as a result of subsequent operations on properties owned by them or their affiliates as of July 1, 1995. Messrs. McClendon and Ward participated in all wells we drilled from our initial public offering in February 1993 through December 1998 with either a 1.0%, 1.25% or 1.5% working interest. Messrs. McClendon and Ward did not participate in our wells during 1999 or the first quarter of 2000. However, both resumed participation in our wells on April 1, 2000.

The employment agreement we have with Mr. Rowland provides for a 35-month contract term from August 1, 2000 which can be terminated by either party and an initial minimum annual base salary of \$250,000 increasing to \$275,000 on January 1, 2001. Mr. Rowland's employment agreement requires him to hold 5,000 shares of our common stock throughout the term of the agreement. Under his employment agreement, Mr. Rowland is permitted to continue to conduct oil and gas activities individually and through various related or family-owned entities, but he may not, after August 1, 2000, acquire, attempt to acquire or aid another person in acquiring an interest in any oil and gas exploration, development or production activities within five miles of any operations or ownership interests of Chesapeake or its affiliates.

We also have employment agreements with Messrs. Dixon and Lester. These agreements have a term of three years from July 1, 2000, with minimum annual base salaries of \$205,000. The agreements require each of them to acquire and continue to hold at least 1,000 shares of our common stock throughout the term of their contract.

We may terminate any of these employment agreements at any time without cause; however, upon such termination Messrs. McClendon and Ward are entitled to continue to receive salary and benefits for the balance of the contract term. Mr. Rowland would be entitled to receive six months compensation and benefits if we terminate him without cause. Messrs. Dixon and Lester are entitled to three months compensation and benefits if we terminate their employment without cause. Each of the employment agreements for Messrs. Rowland, McClendon, Ward, Rowland, Dixon and Lester further state that if, during the term of the agreement, there is a change of control and (a) within one year the agreement expires and is not extended, (b) within one year the executive officer resigns as a result of (i) a reduction in the executive officer's compensation, or (ii) a required relocation more than 25 miles from the executive officer's then current place of employment or (c) within two years from the effective date of the change of control (one year for Messrs. Rowland, Dixon and Lester) the executive officer is terminated other than for cause, death or incapacity, then the executive officer will be entitled to a severance payment in an

amount equal to 60 months of base compensation (as that term is defined in the agreements) for Messrs. McClendon and Ward and six months for Messrs. Rowland, Dixon and Lester. Change of control is defined in Messrs. McClendon and Ward's agreements to include (x) an event which results in a person acquiring beneficial ownership of securities having 35% or more of the voting power of our outstanding voting securities, or (y) within two years of a tender offer or exchange offer for our voting stock or as a result of a merger, consolidation, sale of assets or contested election, a majority of the members of our board of directors is replaced by directors who were not nominated and approved by our board of directors. In Messrs. Dixon, Lester and Rowland's agreements, change of control is defined to include (1) the direct or indirect acquisition by any person of beneficial ownership of the right to vote, or securities representing the right to vote, 51% or more of the combined voting power of our then outstanding securities having the right to vote for the election of directors or (2) a merger, consolidation, sale of assets or contested election or (3) any combination of (1) and (2) which results in a majority of the members of our board of directors being replaced by directors who were not nominated and approved by the existing board of directors.

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Our compensation committee is composed of Messrs. Heizer and Whittemore. Messrs. McClendon and Ward served on the compensation committee until September 1999. Mr. McClendon is our Chairman of the Board and Chief Executive Officer and Mr. Ward is our President and Chief Operating Officer. Messrs. McClendon and Ward administer our 1992 stock option plan. Our 1992 Incentive Stock Option Plan was terminated in December 1994, except with respect to the administration of outstanding options. The only options issued under our 1992 NSO Plan during the year ended December 31, 1999 were those to our non-employee directors pursuant to a formula award provision. See "-- Directors' Compensation." Messrs. McClendon and Ward also serve on committees which administer our other stock option plans with respect to employee participants who are not executive officers. Messrs. Heizer and Whittemore serve on committees which administer these plans with respect to employee participants who are executive officers. Messrs. McClendon and Ward participate as working interest owners in our oil and gas wells pursuant to the terms of their employment agreements. See "-- Employment Agreements." Accounts receivable from Messrs. McClendon and Ward are generated by joint interest billings relating to such participation and as a result of miscellaneous expenses we paid on their behalf. We extended loans of \$5.0 million each to Messrs. McClendon and Ward in 1998 which were paid in full in late 1999. See "Certain Transactions Involving Chesapeake."

#### DIRECTORS' COMPENSATION

During 1999, directors who were not employees received cash compensation of \$25,000, comprised of an annual retainer of \$5,000, payable in quarterly installments of \$1,250, and \$5,000 for each meeting of the Board attended, not to exceed \$20,000 per year for Board meetings attended. Directors are reimbursed for travel and other expenses. Officers who also serve as directors do not receive fees for serving as directors. Under a formula award provision in our 1992 NSO Plan, non-employee directors were granted ten-year non-qualified options to purchase 6,250 shares of common stock at an exercise price equal to the market price on the first business day of each quarter of 1999 and the first quarter of 2000. Commencing with the second quarter in 2000, the quarterly option grant to non-employee directors increased to 7,500 shares. The options are immediately exercisable upon grant.

## CERTAIN TRANSACTIONS INVOLVING CHESAPEAKE

## LEGAL COUNSEL

Shannon T. Self, a member of our board of directors, is a shareholder in the law firm of Self, Giddens & Lees, Inc., which provides us with legal services. During 1997, 1998 and 1999, the firm billed us approximately \$414,314, \$493,000 and \$398,000, respectively for such legal services.

## OIL AND GAS OPERATIONS

Prior to 1989, Messrs. McClendon and Ward and their affiliates, as independent oil producers, acquired various leasehold and working interests. In 1989, Chesapeake Operating, Inc., one of our wholly-owned subsidiaries, was formed to drill and operate wells in which Messrs. McClendon and Ward or their affiliates owned working interests. Chesapeake Operating entered into joint operating agreements with Messrs. McClendon and Ward and other working interest owners and billed each for their respective shares of expenses and fees. Chesapeake Operating continues to operate wells in which directors, executive officers and related parties own working interests. In addition, directors, executive officers and related parties have in the past acquired working interests directly and indirectly from Chesapeake and participated in wells drilled by Chesapeake Operating. Our non-employee directors have not acquired interests in any new wells we have drilled since their election as directors in 1993 and have no present intention to acquire interests in any of our new wells.

The table below presents information about drilling, completion, equipping and operating costs billed to the persons named in 1997, 1998 and 1999, the largest amount owed by them during those periods and the balances owed by them at December 31, 1999, 1998, 1997 and 1996. No interest is charged on amounts owing for such costs. The amounts for all other directors and executive officers who are joint working interest owners in our wells were insignificant.

	AUBREY K. MCCLENDON	TOM L. WARD	MARCUS C. ROWLAND
	-----	-----	-----
	(IN 000'S)		
Amount billed in 1999.....	\$1,421	\$1,366	\$ 68
Largest outstanding balance in 1999 (month end).....	\$1,503	\$1,718	\$ 29
Balance at December 31, 1999.....	\$1,426	\$ 868	\$ 16
Amount billed in 1998.....	\$3,950	\$3,902	\$106
Largest outstanding balance in 1998 (month end).....	\$2,581	\$3,291	\$ 62
Balance at December 31, 1998.....	\$1,541	\$1,444	\$ 18
Amount billed in 1997.....	\$6,784	\$6,759	\$142
Largest outstanding balance in 1997 (month end).....	\$4,745	\$4,190	\$ 60
Balance at December 31, 1997.....	\$ 68	\$2,203	\$ 36
Balance at December 31, 1996.....	\$1,224	\$1,272	\$ 35

The amounts advanced to the executive officers during 1998 and 1999 to correct the timing of the receipt of oil and gas revenues on the wells in which the executive officers participated, including accrued interest, equaled \$984,000 and \$959,208, respectively for Mr. McClendon, \$958,000 and \$932,223, respectively for Mr. Ward and \$29,060 and \$25,000, respectively for Mr. Rowland. The amount of these advances in excess of revenue we received and not disbursed bears interest at 9.125%.

## LOANS TO EXECUTIVES

In June 1998, we extended loans of \$5.0 million each to Messrs. McClendon and Ward to pay a portion of the margin debt incurred by them in connection with their purchase of 730,750 shares each of our common stock in the open market in February 1997 at an approximate average price of \$20.24 per share. Each loan initially had a maturity date of December 31, 1998, which was extended to December 31, 1999. In each case the terms of the loan and the documentation evidencing the loan were negotiated by a committee of independent directors in conjunction with separate legal counsel. Interest accrued on each of

the loans at an annual rate of 9.125% and was payable quarterly. Each of the loans was secured by collateral with an indicated fair market value greater than 150% of the unpaid principal balance of the loan. In November 1999, the borrowers repaid the loans in full by surrendering shares of our common stock having a market value equal to the then respective amounts owed (principal amount of \$3,847,000 for Mr. McClendon and \$3,688,000 for Mr. Ward).

#### PURCHASE OF OIL AND GAS ASSETS FROM EXECUTIVE

In January 2000, we purchased Mr. Rowland's interests in the oil and gas wells in which he participated pursuant to his employment agreement. The purchase price for the oil and gas assets was \$465,000 and was determined using a methodology similar to that used for similar acquisitions of assets from disinterested third parties. See "Chesapeake's Executive Compensation -- Employment Agreements."

#### MISCELLANEOUS

From time to time, we have paid various expenses incurred on behalf of Messrs. McClendon and Ward and their affiliates, creating accounts receivable. During 1997, 1998 and 1999 additions to accounts receivable, excluding joint interest billings, which are described above, from Messrs. McClendon and Ward and their affiliates were insignificant.

#### TRANSACTIONS WITH GOTHIC

Since April 1998, Gothic and Chesapeake have entered into a number of transactions. These transactions include the following:

- Gothic sold to Chesapeake 50,000 shares of Gothic's 12% Series B senior redeemable preferred stock, aggregate liquidation value of \$50 million, and a warrant to purchase 2,439,246 shares of Gothic's common stock;
- Gothic sold to Chesapeake a 50% interest in its producing Arkoma basin natural gas and oil properties for approximately \$20 million;
- Gothic assigned a 50% interest in substantially all of Gothic's undeveloped leasehold to Chesapeake and entered into a participation agreement with Chesapeake to provide for the development of the undeveloped acreage;
- Gothic and Chesapeake subsequently revised the terms of the participation agreement;
- Chesapeake exercised first refusal rights and purchased, for approximately \$1.6 million, Gothic's interest in approximately 200 producing properties upon terms Gothic had previously negotiated with a third party; and
- Chesapeake granted Gothic the option to revise further the participation agreement and to redeem the Gothic common and preferred stock held by Chesapeake. The letter of intent for the merger executed by Chesapeake and Gothic on June 30, 2000 terminated this option.

For a more complete description of these transactions, please see "The Merger -- Background of the Merger."

## BENEFICIAL OWNERSHIP OF COMMON STOCK

## CHESAPEAKE

The table below sets forth (1) the name and address of each person known by us to own beneficially more than 5% of our outstanding common stock, the number of shares beneficially owned by each such shareholder and the percentage of outstanding shares owned, and (2) the number and percentage of outstanding shares of common stock beneficially owned by each of our directors and executive officers listed in the Summary Compensation Table in "Chesapeake's Executive Compensation" and by all of our directors and executive officers as a group. Unless otherwise noted, information is given as of September 29, 2000 and the persons named below have sole voting and/or investment power with respect to such shares. The ownership percentages shown for after the merger were calculated assuming the issuance of 4,000,000 shares of Chesapeake common stock.

BENEFICIAL OWNER	COMMON STOCK				
	OUTSTANDING SHARES	OPTION SHARES(a)	TOTAL OWNERSHIP	PERCENT OF CLASS	PERCENT OF CLASS AFTER MERGER
Tom L. Ward(1)(2)..... 6100 North Western Avenue Oklahoma City, OK 73118	10,084,522(b)(c)	1,224,406	11,308,958	7.3%	7.2%
Aubrey K. McClendon(1)(2)..... 6100 North Western Avenue Oklahoma City, OK 73118	8,776,847(c)(d)	1,224,406	10,001,253	6.5%	6.3%
Franklin Advisers, Inc. .... 777 Mariners Island Boulevard San Mateo, CA 94404	10,760,100	--	10,760,100	7.0%	6.9%
Loomis, Sayles & Company, L.P. .... One Financial Center Boston, MA 02111	8,157,070	386,318(e)	8,543,388(e)	5.6%	5.4%
Edgar F. Heizer, Jr.(1).....	709,650	413,500	1,123,150	(3)	(3)
Breene M. Kerr(1).....	376,000(f)	190,000(g)	566,000	(3)	(3)
Shannon T. Self(1).....	31,458(h)	428,166	459,624	(3)	(3)
Frederick B. Whittemore(1).....	481,800(i)	1,192,750(g)	1,674,550	1.1%	1.1%
Steven C. Dixon(2).....	13,716(c)	462,964	476,680	(3)	(3)
J. Mark Lester(2).....	43,845(c)	109,352	153,197	(3)	(3)
Marcus C. Rowland(2).....	32,548(c)	99,369	131,917	(3)	(3)
All directors and executive officers as a group.....	20,598,621	4,599,813	25,198,434	16.0%	15.6%

(1) Director

(2) Executive officer

(3) Less than 1%

(a) Represents shares of common stock which can be acquired on September 29, 2000 or 60 days thereafter through the exercise of options or conversion of Chesapeake's convertible preferred stock.

(b) Includes 1,444,860 shares held by TLW Investments, Inc., an Oklahoma corporation of which Mr. Ward is sole shareholder and chief executive officer; 1,098,600 shares held by the Aubrey K. McClendon Children's Trust of which Mr. Ward is Trustee; and 21,435 shares held by Mr. Ward's immediate family sharing the same household. Excluded are the shares of common stock beneficially owned by Mr. McClendon which may be attributed to Mr. Ward based on a jointly filed Schedule 13D. Mr. Ward disclaims such ownership.

(c) Includes shares purchased on behalf of the executive officer in the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan (Tom L. Ward, 34,042 shares; Aubrey K. McClendon,

81,123 shares; Steven C. Dixon, 13,716 shares; J. Mark Lester, 13,345 shares; and Marcus C. Rowland, 16,403 shares).

- (d) Includes 13,560 shares held by Chesapeake Investments, an Oklahoma limited partnership of which Mr. McClendon is sole general partner. Excluded are the shares beneficially owned by Mr. Ward which may be attributed to Mr. McClendon based on a jointly filed Schedule 13D. Mr. McClendon disclaims such ownership.
- (e) Represents shares of Chesapeake's preferred stock which is convertible into 386,318 shares of Chesapeake's common stock. Excludes any shares that might be issuable with respect to accrued and unpaid dividends.
- (f) Includes 250,000 shares held by Talbot Fairfield II Limited Partnership, of which Mr. Kerr is a general partner.
- (g) Includes options to purchase shares of Chesapeake's common stock owned by Messrs. Ward and McClendon issued to Messrs. Kerr, and Whittemore (Breene M. Kerr, 93,750 shares from Aubrey K. McClendon; Frederick B. Whittemore, 394,688 shares from Aubrey K. McClendon and 355,312 shares from Tom L. Ward).
- (h) Includes 12,382 shares held by Pearson Street Limited Partnership, an Oklahoma limited partnership of which Mr. Self is sole general partner and the remaining partner is Mr. Self's spouse.
- (i) Includes 41,750 shares held by Mr. Whittemore as trustee of the Whittemore Foundation.

GOTHIC

The following table sets forth (1) the name and address of each person known by Gothic to own beneficially more than 5% of Gothic's outstanding common stock, the number of shares beneficially owned by each such shareholder and the percentage of outstanding shares owned, and (2) the number and percentage of outstanding shares of common stock beneficially owned by each of Gothic's directors and executive officers and by all directors and executive officers as a group. Unless otherwise noted, information is given as of September 25, 2000.

NAME AND ADDRESS OF BENEFICIAL HOLDER, IDENTITY OF GROUP(1)(2)	AMOUNT(3)	PERCENT OF CLASS
Michael Paulk.....	1,049,891	4.5%
John Fleming.....	712,500	3.1%
Brian E. Bayley.....	712,500	3.1%
Carl C. Icahn(4).....	1,600,000	6.9%
High River Limited Partnership(4) Riverdale LLC(4) Little Meadow Corp.(4) 100 South Bedford Road Mount Kisco, New York 10549		
Amoco Corporation(4).....	1,967,672(5)	7.8%
200 East Randolph Drive Chicago, Illinois 60601		
Chesapeake Energy Corporation(6).....	2,394,125	10.3%
6100 North Western Avenue Oklahoma City, Oklahoma 73118		
OppenheimerFunds, Inc.(7).....	1,265,913	5.4%
Two World Trade Center, 34th Floor New York, New York 10048		
All officers and directors as a group (6 persons).....	3,405,291	14.6%

(1) This tabular information is intended to conform with Rule 13d-3 promulgated under the Securities Exchange Act of 1934 relating to the determination of beneficial ownership of securities. The tabular



information gives effect to the exercise of warrants or options exercisable within 60 days of the date of this table owned in each case by the person or group whose percentage ownership is set forth opposite the respective percentage and is based on the assumption that no other person or group exercise their option.

- (2) The address of Mr. Paulk is c/o Gothic Energy Corporation, 6120 South Yale Avenue, Suite 1200, Tulsa, Oklahoma 74136. The address of Mr. Fleming is 1500, 340 12th Avenue SW, Calgary, Alberta T2R 1L5. The address of Mr. Bayley is c/o Quest Management Corp., 1095 West Pender Street-Suite 850, Vancouver, British Columbia, Canada V6E 2M6.
- (3) Except as otherwise noted, shares beneficially owned by each person as of September 25, 2000 were owned of record and each person had sole voting and investment power with respect to all shares beneficially held by such person.
- (4) Based on information contained in Schedule 13D provided by such person.
- (5) Issuable on exercise of common stock purchase warrants at \$2.29 per share, as adjusted.
- (6) In addition, as of September 25, 2000, Chesapeake held 64,723 shares of Series B senior redeemable preferred stock with a liquidation value of \$1,000 per share. Such shares are convertible into a number of shares of Gothic common stock determined by dividing the liquidation value by the conversion price currently of \$2.04167 per share.
- (7) Based on information contained in Schedule 13G/A provided by such person.

## GOTHIC'S BUSINESS

## GENERAL

Gothic is an independent energy company engaged, through its wholly owned subsidiary corporation, Gothic Production Corporation, in the exploration, development, acquisition and production of onshore natural gas reserves, principally in the Mid-Continent region of the United States. As of December 31, 1999, Gothic had proved reserves of 289.2 Bcf of natural gas and 1.9 MMBbls of oil (300.7 Bcfe), with a PV-10 of approximately \$213.3 million as estimated by Gothic's independent petroleum engineers.

Gothic's natural gas and oil reserves and acreage are principally located in the Anadarko, Arkoma and Permian/Delaware basins, which are historically prolific basins with multiple producing horizons and long-lived reserves. These basins generally provide significant development and exploitation potential through low-risk infill drilling and the implementation of new workover, drilling and recompletion technologies. Gothic has engaged in a comprehensive development and exploitation program designed to increase its natural gas and oil production, earnings, cash flow and net asset value by enhancing proved producing reserves and converting proved undeveloped reserves to proved producing reserves.

At December 31, 1999, Gothic held an interest in approximately 465,000 gross acres (approximately 241,000 net acres) and had an interest in 1,005 gross wells (503 net wells). Gothic served as operator of 578 of the wells in which it had an interest. Operated wells accounted for approximately 63% of the PV-10 value of Gothic's proved reserves as of December 31, 1999. Gothic had estimated proved reserves of 300.7 Bcfe with a PV-10 of \$213.3 million as of December 31, 1999. These reserves, of which 87% were classified as proved developed, had an estimated average reserve life of approximately 10.6 years and 96% were natural gas.

## BUSINESS STRATEGY

Gothic's objective has been to increase its reserves, production, earnings, cash flow and net asset value through a growth strategy that includes (1) developing, exploiting and exploring its properties, (2) maintaining a low operating cost structure, and (3) acquiring strategic natural gas and oil properties in a disciplined manner.

- Development, Exploitation and Exploration. Gothic has sought to maximize the value of its natural gas and oil properties through development drilling, workovers, recompletions, reductions in operating costs and enhanced operating efficiencies. Gothic had, as of March 1, 2000, identified 214 development and exploitation projects within its properties, of which 154 had been assigned proved undeveloped reserves. Gothic believes geological and geophysical data, including 3D and 2D seismic surveys acquired in the Amoco acquisition, has enabled it to reduce costs and risks associated with drilling activities throughout its Anadarko basin properties.
- Maintain Low Cost Operations. Gothic was able to directly control operating and drilling costs as the operator of wells comprising approximately 63% of the PV-10 value of proved reserves as of December 31, 1999. In addition, Gothic has been able to reduce per unit operating costs by eliminating unnecessary field and corporate overhead costs and by divesting marginal and non-strategic properties with limited development potential. Lease operating expenses, net of production taxes, decreased 70%, from \$0.74 per Mcfe of production in 1997 to \$0.22 per Mcfe for the year ended December 31, 1999. Further, general and administrative expenses per Mcfe of production decreased 40%, from \$0.30 per Mcfe to \$0.18 per Mcfe over the same period. Gothic intends to maintain the reduced operating costs associated with well operations through the use of advanced wireless technology licensed to Gothic as part of the Amoco acquisition in January 1998. This technology enables Gothic to remotely monitor well operations, thereby reducing the need for on-site monitoring personnel. Gothic has deployed this technology throughout many of its producing properties in the Anadarko and Arkoma basins.

- Strategic Acquisitions. Gothic has increased its reserves through acquisitions, having added, since 1994, 424.9 Bcfe through 14 acquisitions at a total acquisition cost of \$339.9 million, or an average cost of \$0.80 per Mcfe. The properties acquired were producing natural gas and oil properties located primarily in Oklahoma, Texas, New Mexico and Kansas. There were no significant acquisitions in 1999 and none are budgeted for 2000. Gothic focuses its acquisition efforts on producing natural gas properties within strategic geographic areas with (1) relatively long-lived natural gas production, (2) quantifiable development and exploitation potential, (3) low risk exploration potential, (4) historically low operating expenses or the potential to reduce operating expenses, (5) close proximity to Gothic's existing production or in areas where Gothic has the ability to develop operating economies of scale and (6) geological, geophysical and other technical and operating characteristics with which management of Gothic has expertise.

#### NATURAL GAS AND OIL RESERVES

The following table sets forth certain information on the total proved natural gas and oil reserves, and the PV-10 of estimated future net revenues of total proved natural gas and oil reserves as of December 31, 1999 for Gothic based on the report of Lee Keeling and Associates, Inc. The calculations which Lee Keeling and Associates, Inc. used in the preparation of such report were prepared using geological and engineering methods generally accepted by the petroleum industry and in accordance with SEC guidelines.

	AS OF DECEMBER 31, 1999			
	NATURAL GAS	OIL	NATURAL GAS EQUIVALENT	PV-10% (IN THOUSANDS)
	(MMCF)	(MBBLS)	(MMCFE)	
Proved developed reserves.....	251,631	1,683	261,726	\$193,292
Proved undeveloped reserves.....	37,560	239	38,996	20,040
Total proved reserved.....	289,191	1,922	300,722	\$213,332
	=====	=====	=====	=====

Prices used in calculating future net revenue of proved reserves as of December 31, 1999 and related PV-10 were \$1.89 per Mcf of natural gas and \$24.33 per barrel of oil based on average prices received by Gothic during December 1999. Gothic has not filed any estimates of proved natural gas and oil reserves with any federal authority or agency other than the Securities and Exchange Commission.

## PRINCIPAL AREAS OF OPERATIONS

The following table sets forth the principal areas of operation and estimated proved natural gas and oil reserves, PV-10 of the estimated future net revenues and percent of total PV-10 of Gothic at December 31, 1999.

FIELD	OIL AND CONDENSATE	NATURAL GAS	NATURAL GAS EQUIVALENT	PV-10%	% OF TOTAL PV-10%
	(MMBLS)	(MMCF)	(MMCFE)	(IN THOUSANDS)	
ANADARKO BASIN:					
Springer Field.....	47	22,818	23,100	\$ 15,099	7.1%
Northwest Okeene/Cedardale Field.....	412	34,368	36,840	27,820	13.0%
Cement Field.....	229	64,466	65,840	40,512	19.0%
Mocane Laverne & Hugoton Fields.....	52	10,990	11,302	7,449	3.5%
Carter-Knox.....	8	2,020	2,068	83	--
Watonga-Chickasha.....	508	79,598	82,645	63,505	29.8%
ARKOMA BASIN:					
Arkoma Field.....	--	27,541	27,541	19,701	9.2%
Potato Hills.....	--	13,082	13,082	15,388	7.2%
PERMIAN/DELAWARE BASIN:					
Johnson Ranch/Brushy Draw.....	666	10,455	14,451	12,534	5.9%
Pecos Slope.....	--	23,853	23,853	8,950	4.2%
Hedging Effects.....	--	--	--	2,291	1.1%
Totals.....	1,922	289,191	300,722	\$213,332	100.0%

## DRILLING ACTIVITY

The following table sets forth development drilling results for the years ended December 31, 1999, 1998 and 1997. There were no exploratory wells drilled during those years.

	1999		1998		1997	
	GROSS	NET	GROSS	NET	GROSS	NET
Productive.....	41.0	14.5	44.0	20.4	17.0	9.9
Drilling and completing.....	15.0	5.6	--	--	--	--
Non-Productive.....	5.0	2.9	2.0	1.8	--	--
Total.....	61.0	23.0	46.0	22.2	17.0	9.9

In the third quarter of 1997, Gothic initiated a comprehensive development program and, as of March 1, 2000, had successfully drilled 118 wells, of which 111 have been completed and are producing and, at March 1, 2000, 14 additional wells were at various stages of completion. Gothic believes geological and geophysical data, including 3D and 2D seismic surveys acquired in the Amoco acquisition, has enabled it to reduce costs and risks associated with drilling activities throughout its Anadarko basin properties.

The final determination with respect to any potential drilling locations and the expected time frame for the drilling of any well will depend on a number of factors, including the following:

- the results of exploration efforts and the review and analysis of the seismic or other data,
- the availability of sufficient capital resources by Gothic for drilling prospects, and
- economic and industry conditions at the time of drilling, including prevailing and anticipated prices for natural gas and oil and the availability of drilling rigs and crews.

There can be no assurance that any wells will, if drilled, encounter reservoirs of commercial quantities of natural gas or oil.

#### OPERATING CONTROL OVER PRODUCTION ACTIVITIES

Gothic operated 578 of the 1,005 wells in which it owned an interest, representing approximately 63% of its PV-10 as of December 31, 1999. The non-operated properties are being operated by unrelated third parties pursuant to operating agreements which are, for the most part, standard to the industry. Decisions about operations regarding non-operated properties may be determined by the outside operator rather than Gothic. If Gothic declines to participate in additional activities proposed by the outside operator, under certain operating agreements, Gothic will not receive revenues from, and/or will lose its interest in, the activity in which it declines to participate.

Pursuant to the Amoco acquisition, Gothic received a license to use advanced well automation technology developed by Amoco. This technology is a wireless application that allows Gothic to remotely monitor production, well pressure and temperature along with other well control factors on a real-time basis. Further, the technology helps to regulate the well's productivity and makes periodic adjustments to allow the well to flow more efficiently. Gothic believes that the application of this wireless technology has allowed Gothic to employ fewer personnel to monitor well activity and operate wells more economically. This technology is currently being utilized on almost all operated properties in the Anadarko and Arkoma basins as well as on a few significant non-operated properties Gothic owns an interest in.

#### TITLE TO NATURAL GAS AND OIL PROPERTIES

Gothic has acquired interests in producing and non-producing acreage in the form of working interests, royalty interests and overriding royalty interests. Substantially all of Gothic's property interests are held pursuant to leases from third parties. The leases grant the lessee the right to explore for and extract natural gas and oil from specified areas. Consideration for a lease usually consists of a lump sum payment or bonus and a fixed annual charge, or delay rental, prior to production, unless the lease is paid up, and, once production has been established, a royalty based generally upon the proceeds from the sale of natural gas and oil. Once wells are drilled, a lease generally continues so long as production of natural gas and oil continues. In some cases, leases may be acquired in exchange for a commitment to drill or finance the drilling of a specified number of wells to predetermined depths. Some of Gothic's non-producing acreage is held under leases from mineral owners or a government entity which expire at varying dates. Gothic is obligated to pay annual delay rentals to the lessors of certain properties in order to prevent the leases from terminating. Because substantially all of Gothic's undeveloped acreage is held by production, annual delay rentals are generally nominal.

Title to leasehold properties is subject to royalty, overriding royalty, carried, net profits and other similar interests and contractual arrangements customary in the natural gas and oil industry, and to liens incident to operating agreements, liens relating to amounts owed to the operator, liens for current taxes not yet due and other encumbrances. In addition, in certain areas Gothic's interests in producing properties are subject to certain agreements and other instruments that have not been recorded in real property records. The effect of these unrecorded instruments has been confirmed based upon a review of historical cost and revenue information, including joint interest billings, division orders, check stubs and other production accounting information reflecting such unrecorded interests. Gothic believes that such burdens and unrecorded instruments neither materially detract from the value of its interest in the properties, nor materially interfere with the use of such properties in the operation of its business.

While updated title opinions may not always be received prior to the acquisition of a producing natural gas and oil property, title opinions on significant producing properties have historically been obtained in connection with pledging Gothic's producing properties under bank loan agreements. On undeveloped leases, title opinions are usually not obtained until immediately prior to the drilling of a well on a property. Accordingly, Gothic's proved undeveloped reserves may be the subject of significantly less title investigation. It is contemplated, however, that investigations will be made in accordance with

standard practices in the industry before the acquisition of producing properties and before exploratory drilling.

#### PRODUCTION AND SALES PRICES

Gothic's production of natural gas and oil is derived solely from within the United States. Gothic is not obligated to provide a fixed and determinable quantity of oil and/or natural gas in the future under existing contracts or agreements with customers. However, from time to time, Gothic does enter into hedging agreements with respect to its natural gas and oil production.

In April 1999, Gothic entered into a hedge agreement in the form of a costless collar with respect to the production of 50,000 MMBtu of natural gas per day during the period of May through October 1999. The costless collar placed a floor of \$1.80 per MMBtu and a ceiling of \$2.26 per MMBtu for the effective price of natural gas received by Gothic. Additionally, in July 1999 Gothic entered into a similar costless collar agreement with respect to the production of 50,000 MMBtu per day during the period of November 1999 through March 2000 which placed a floor of \$2.30 per MMBtu and a ceiling of \$3.03 per MMBtu.

The collars represented approximately 70% of Gothic's current daily natural gas production. Collar arrangements limit the benefits Gothic will realize if actual prices rise above the ceiling price. These arrangements provide for Gothic to exchange a floating market price for a fixed range contract price. Payments are made by Gothic when the floating price exceeds the fixed range for a contract month and payments are received when the fixed range price exceeds the floating price. The commodity reference price for both contracts is Panhandle Eastern, as described below.

In January 2000, Gothic entered into a hedge agreement covering 50,000 MMBtu of natural gas per day at a fixed price of \$2.435 per MMBtu. This hedge is in effect from April 2000 through October 2000. In February 2000, Gothic entered into a hedge agreement covering 20,000 MMBtu of natural gas per day at a fixed price of \$2.535 per MMBtu for April 2000 and \$2.555 per MMBtu for May 2000. This hedge was in effect for the months of April and May 2000 and the commodity reference price for both contracts was the Panhandle Eastern Pipeline Company, Texas, Oklahoma Mainline Index ("Panhandle Eastern"). If the open gas hedges noted above had been settled on June 30, 2000, Gothic would have recognized a loss of approximately \$11,096,000.

In September 2000, Gothic entered into a hedge agreement covering 60,000 MMBtu per day at a fixed price of \$4.88 per MMBtu for November 2000 and \$5.00 per MMBtu for December 2000. The commodity price reference for both of these contracts is also Panhandle Eastern.

In August 1999, Gothic entered into a hedge agreement covering 10,000 barrels of oil per month at a fixed price of \$20.10 per barrel. This hedge was in effect from September 1999 through August 2000.

Gothic does not refine or process the natural gas and oil it produces, but sells the production to unaffiliated natural gas and oil purchasing companies in the area in which it is produced. Gothic sells crude oil on a market price basis and sells natural gas under contracts to both interstate and intrastate natural gas pipeline companies.

#### MARKETING OF PRODUCTION

Gothic's production of natural gas and oil is marketed to third parties consistent with industry practices. Typically, oil is sold at the wellhead at field posted prices, and gas is sold under contract at negotiated prices based upon factors normally considered in the industry, such as distance from the well to the pipeline, well pressure, estimated reserves, quality of gas and prevailing supply/demand conditions.

Typically, gas production is sold to various pipeline companies. The basic terms of all the contracts are essentially the same in that Gothic makes gas production available to the pipeline companies at certain given points of delivery on their pipelines and the pipeline company accepts such gas and delivers it to the end user. The pipeline company then has the obligation to pay Gothic a price for the gas which is based on published indices of average pipeline prices or upon a percentage of the pipeline resale value.

In January 1998 Gothic entered into a ten-year marketing agreement with Continental Natural Gas Company, now CMS Continental Natural Gas, whereby the majority of the natural gas associated with the Amoco acquisition will be sold to Continental at current market prices adjusted for marketing and transportation fees.

Gothic's revenues, earnings and cash flows are highly dependent upon current prices for natural gas and oil received by Gothic. In December 1999, natural gas and oil prices received by Gothic for its production were \$1.89 per Mcf and \$24.33 per Bbl, respectively. In general, prices of natural gas and oil are dependent upon numerous factors beyond the control of Gothic including supply and demand, competition, imports and various economic, political, environmental and regulatory developments, and accordingly, future prices of natural gas and oil may be different from prices in effect at December 31, 1999. As of July 1, 2000, the price received by Gothic for natural gas had risen to \$4.01 per Mcf. During the period from April to October 2000, Gothic had hedges in place which resulted in it receiving a net price of \$2.44 per Mcf. In September 2000, Gothic entered into hedge agreements covering 60,000 MMBtu per day at a fixed price of \$4.88 per MMBtu for November 2000 and \$5.00 per MMBtu for December 2000. In view of the many uncertainties affecting the supply and demand for crude oil, natural gas and refined petroleum products, Gothic is unable to accurately predict future natural gas and oil prices and demand or the overall effect they will have on Gothic.

During the year ended December 31, 1999, Gothic sold approximately 56% of its gas production to Continental and 47% of its oil production to Duke Energy, Inc. Gothic does not believe it would be adversely affected if it were unable to sell to either of these purchasers.

#### COMPETITION

The natural gas and oil industry is highly competitive in all of its phases. Gothic encounters competition from other natural gas and oil companies in all areas of its operations, including the acquisition of producing properties and the marketing of natural gas and oil. Many of these companies possess greater financial and other resources than Gothic. Competition for acquisition of producing properties is affected by the amount of funds available to Gothic, information about producing properties available to Gothic and any standards established from time to time by Gothic for the minimum projected return on investment. Because gathering systems are the only practical method for the intermediate transportation of natural gas, competition is presented by other pipelines and gas gathering systems. Competition may also be presented by alternative fuel sources, including heating oil and other fossil fuels. Because the primary markets for natural gas liquids are refineries, petrochemical plants and fuel distributors, prices are generally set by or in competition with the prices for refined products in the petrochemical, fuel and motor gasoline markets.

#### REGULATION

The natural gas and oil business is regulated extensively by federal, state and local authorities. Various governmental agencies, both federal and state, have promulgated rules and regulations binding on the natural gas and oil industry and its individual members, some of which carry substantial penalties for the failure to comply. The regulatory burdens on the natural gas and oil industry increase its cost of doing business and, consequently, affect its profitability. Because such laws and regulations are frequently amended or reinterpreted, Gothic is unable to predict the future cost of complying with such regulations. Gothic believes that it is in material compliance with its regulatory obligations.

The States of Oklahoma and Texas and many other states require permits for drilling operations, drilling bonds and reports concerning operations and impose other requirements relating to the exploration and production of natural gas and oil. These states also have statutes or regulations addressing conservation matters, including provisions for the unitization or pooling of natural gas and oil properties, the establishment of maximum rates of production from wells and the regulation of spacing, plugging and abandonment of such wells.

Environmental Matters. Gothic's operations and properties are subject to extensive and changing federal, state and local laws and regulations relating to environmental protection, including the generation, storage, handling, emission, transportation and discharge of materials into the environment, and relating to safety and health. The recent trend in environmental legislation and regulation generally is toward stricter standards, and this trend will likely continue. These laws and regulations may require the acquisition of a permit or other authorization before construction or drilling commences and for certain other activities; limit or prohibit construction, drilling and other activities on certain lands lying within wilderness and other protected areas; and impose substantial liabilities for pollution resulting from Gothic's operations. The permits required for various areas of Gothic's operations are subject to revocation, modification and renewal by issuing authorities. Governmental authorities have the power to enforce compliance with their regulations, and violators are subject to fines or injunction, or both. In the opinion of management, Gothic is in substantial compliance with current applicable environmental laws and regulations, and Gothic has no material commitments for capital expenditures to comply with existing environmental requirements. Nevertheless, changes in existing environmental laws and regulations or in interpretations thereof could have a significant impact on Gothic, as well as the natural gas and oil industry in general. The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and comparable state statutes impose strict, joint and several liabilities on owners and operators of sites and on persons who dispose of or arrange for the disposal of "hazardous substances" found at such sites. Although CERCLA currently excludes petroleum from its definition of "hazardous substance," state laws affecting Gothic's operations impose clean-up liability relating to petroleum and petroleum related products. It is not uncommon for the neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. The Resource Conservation and Recovery Act ("RCRA") and comparable state statutes govern the disposal of "solid waste" and "hazardous waste" and authorize imposition of substantial fines and penalties for noncompliance. Although RCRA classifies certain oil field wastes as "non-hazardous," such exploration and production wastes could be reclassified as hazardous wastes, thereby making such wastes subject to more stringent handling and disposal requirements.

Federal regulations require certain owners or operators of facilities that store or otherwise handle oil, such as Gothic, to prepare and implement spill prevention, control countermeasure and response plans relating to the possible discharge of oil into surface waters. The Oil Pollution Act of 1990 contains numerous requirements relating to the prevention of and response to oil spills into waters of the United States. For onshore facilities that may affect waters of the United States, the Environmental Protection Agency ("EPA") requires an operator to demonstrate \$10.0 million in financial responsibility, and for offshore facilities the financial responsibility requirement is at least \$35.0 million. Regulations are currently being developed under federal and state laws concerning oil pollution prevention and other matters that may impose additional regulatory burdens on Gothic. In addition, the Clean Water Act and analogous state laws require permits to be obtained to authorize discharge into surface waters or to construct facilities in wetland areas. With respect to certain of its operations, Gothic is required to maintain such permits or meet general permit requirements. The EPA recently adopted regulations concerning discharges of storm water runoff. This program requires covered facilities to obtain individual permits, participate in a group or seek coverage under an EPA general permit. Gothic believes that it will be able to obtain, or be included under, such permits, where necessary, and to make minor modifications to existing facilities and operations that would not have a material effect on Gothic.

Gothic has acquired leasehold interests in numerous properties that for many years have produced natural gas and oil. Although the previous owners of these interests may have used operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed of or released on or under the properties. In addition, some of Gothic's properties are or have been operated by third parties over whom Gothic has or had no control. Notwithstanding Gothic's lack of control over properties operated by others, the failure of the operator to comply with applicable environmental regulations may, in certain circumstances, adversely impact Gothic.



Marketing and Transportation. In the past, the transportation and sale for resale of natural gas in interstate commerce has been regulated pursuant to the Natural Gas Act of 1938, the Natural Gas Policy Act of 1978 (the "NGPA"), and the regulations promulgated thereunder by the Federal Energy Regulatory Commission (the "FERC"). Since 1978, maximum selling prices of certain categories of natural gas sold in the "first sales," whether sold in interstate or intrastate commerce, has been regulated pursuant to the NGPA. The term "first sales" means the first time gas is sold as a severed hydrocarbon after it is produced from the ground. The NGPA established various categories of natural gas and provided for graduated deregulation of price controls of several categories of natural gas. There is currently no price regulation for "first sales" of gas. On July 26, 1989, the Natural Gas Wellhead Decontrol Act was enacted. This act amended the NGPA to remove both price and non-price controls from natural gas sold in "first sales" as of January 1, 1993. Under current market conditions, deregulated gas prices under new contracts tend to be substantially lower than most regulated price ceilings prescribed by the NGPA. The effect of termination of these price controls cannot be determined.

The FERC regulates interstate natural gas transportation rates and service conditions, which affect the marketing of gas produced by Gothic, as well as the revenues received by Gothic for sales of such production. Since the mid-1980s, FERC has issued a series of orders, culminating in Order Nos. 636, 636-A and 636-B ("Order 636"), that have significantly altered the marketing and transportation of natural gas. Order 636 mandates a fundamental restructuring of interstate pipeline sales and transportation service, including the unbundling by interstate pipelines of the sale, transportation, storage and other components of the city-gate sales services such pipelines previously performed. One of FERC's purposes in issuing the order was to increase competition within all phases of the natural gas industry. Numerous parties have filed petitions for review of Order 636, as well as orders in individual pipeline restructuring proceedings. In July 1996, Order 636 was generally upheld on appeal, and the portions remanded for further action do not appear to materially affect Gothic. Because Order 636 may be modified as a result of the appeals, it is difficult to predict the ultimate impact of the orders on Gothic and its gas marketing efforts. Generally, Order 636 has eliminated or substantially reduced the interstate pipelines' traditional role as wholesalers of natural gas and has substantially increased competition and volatility in natural gas markets.

The price Gothic receives from the sale of natural gas liquids and oil is affected by the cost of transporting products to markets. Effective January 1, 1995, FERC implemented regulations establishing an indexing system for transportation rates for oil pipelines, which, generally, would index such rates to inflation, subject to certain conditions and limitations. Gothic is not able to predict with certainty the effect, if any, of these regulations on its operations. However, the regulations may increase transportation costs or reduce wellhead prices for natural gas liquids and oil.

#### OPERATIONAL HAZARDS AND INSURANCE

Gothic maintains various types of insurance to cover its operations, including \$2.0 million of general liability insurance and an additional \$5.0 million of excess liability insurance. Gothic's insurance does not cover every potential risk associated with the drilling and production of natural gas and oil. Coverage is not obtainable for certain types of environmental hazards. The occurrence of a significant adverse event, the risks of which are not fully covered by Gothic's insurance, could have a material adverse effect on Gothic's financial condition and results of operations. Moreover, no assurance can be given that Gothic will be able to maintain adequate insurance in the future at reasonable rates.

#### EMPLOYEES

As of June 30, 2000, Gothic had a total of 31 employees consisting of 18 production and land personnel, and 13 financial, accounting and administrative personnel, two of whom are executive officers.

EXECUTIVE OFFICE

Gothic leases approximately 13,600 square feet of space in Tulsa, Oklahoma for its corporate and administrative offices. The annual rental is approximately \$225,000 and the lease expires December 31, 2004. Gothic believes this facility is adequate for its present requirements.

INCORPORATION

Gothic was incorporated on November 19, 1985 under the laws of the State of New Jersey and was reincorporated as a Delaware corporation on June 23, 1994. On December 4, 1996, Gothic was reincorporated as an Oklahoma corporation by merging the Delaware corporation with and into a wholly owned subsidiary incorporated for that purpose under the laws of the State of Oklahoma. Gothic's principal office is at 6120 South Yale Avenue, Suite 1200, Tulsa, Oklahoma 74136, and its telephone number is (918) 749-5666.

DESCRIPTION OF PROPERTY

Acreage. The following table shows the approximate gross and net acres of leasehold interests of Gothic on December 31, 1999:

FIELD	DEVELOPED ACREAGE		UNDEVELOPED ACREAGE	
	GROSS	NET	GROSS	NET
Anadarko Basin				
Springer Field.....	7,200	4,680	150	75
Northwest Okeene/Cedardale Field.....	66,560	51,906	1,920	274
Cement Field.....	48,640	29,184	3,385	980
Mocane Laverne & Hugoton Fields.....	93,518	49,485	420	420
Watonga-Chickasha.....	135,680	69,196	8,157	4,127
Arkoma Basin				
Arkoma Field.....	74,240	18,560	--	--
Potato Hills.....	5,754	795	6,980	2,523
Permian/Delaware Basin				
Johnson Ranch/Brushy Draw.....	160	120	--	--
Pecos Slope.....	12,000	9,000	--	--
Totals.....	443,752	232,926	21,012	8,399

Productive Well Summary. The following table sets forth by field the respective interests in productive wells owned by Gothic as of December 31, 1999:

FIELD	GROSS WELL COUNT	NET WELL COUNT
Anadarko Basin		
Springer Field.....	35	14
Northwest Okeene/Cedardale Field.....	189	92
Cement Field.....	72	18
Mocane Laverne & Hugoton Fields.....	100	56
Watonga-Chickasha.....	355	179
Arkoma Basin		
Arkoma Field.....	139	35
Potato Hills.....	3	1
Permian/Delaware Basin		
Johnson Ranch/Brushy Draw.....	7	3
Pecos Slope.....	105	105
Totals.....	1,005	503

Natural Gas and Oil Production. The following table shows the approximate net natural gas and oil production attributable to Gothic for the years ended December 31, 1999, 1998 and 1997:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Natural Gas (MMcf).....	25,477	24,455	6,583
Oil (MBbls).....	158	257	176
Natural gas equivalents (MMcfe).....	26,425	25,997	7,639

#### LEGAL PROCEEDINGS

Gothic is a plaintiff in an action instituted on December 22, 1999 in the United States District Court for the Northern District of Oklahoma against Jefferies & Company, Inc. seeking actual and punitive damages against Jefferies & Company for intentional interference with contractual relations and business opportunity wherein Gothic claims Jefferies & Company improperly and wrongfully interfered in the closing of the acquisition of the Amoco assets in January 1998. Jefferies & Company has filed a counterclaim against Gothic seeking indemnification under an alleged letter agreement between Gothic and Jefferies & Company for attorney's fees and expenses of litigation, among other things. Gothic believes that discovery in the litigation is substantially complete and anticipates a trial of the matter. Jefferies & Company has filed a motion for summary judgment and Gothic has filed a response to the motion. Gothic's management is unable to predict the ultimate outcome of the litigation.

Gothic is not a party to any other proceedings other than ordinary litigation incidental to its business, the outcome of which management believes will not have a material adverse effect on its financial position or results of operations.

## GOTHIC ENERGY CORPORATION

## SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA

The following table sets forth selected consolidated financial data of Gothic for the six months ended June 30, 2000 and 1999, and the years ended December 31, 1999 and 1998. The data are derived from Gothic's audited consolidated financial statements, except for periods for the six months ended June 30, 2000 and 1999, which are derived from unaudited consolidated financial statements of Gothic. The table should be read in conjunction with "Gothic Energy Corporation Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements of Gothic, including the notes thereto, appearing in this proxy statement/prospectus.

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEMBER 31,	
	2000	1999	1999	1998
	(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)			
<b>STATEMENT OF OPERATIONS DATA:</b>				
Revenue:				
Oil and gas sales.....	\$ 31,863	\$ 23,417	\$ 52,967	\$ 50,714
Well operations.....	1,356	1,259	2,657	2,319
Total revenues.....	33,219	24,676	55,624	53,033
Operating costs:				
Lease operating expenses.....	2,390	2,987	5,725	8,609
Production taxes.....	2,053	1,614	3,880	3,520
General and administrative expense.....	1,976	1,984	4,675	3,823
Investment banking and related fees.....	785	--	638	--
Oil and gas depreciation, depletion, and amortization.....	9,625	10,402	20,444	23,626
Depreciation and amortization of other assets.....	350	250	525	375
Provision for impairment of natural gas and oil properties.....	--	--	--	76,000
Total operating costs.....	17,179	17,237	35,887	115,953
Income (loss) from operations.....	16,040	7,439	19,737	(62,920)
Other income (expense):				
Interest and other income.....	50	817	942	128
Interest expense.....	(19,490)	(18,727)	(37,988)	(35,438)
Loss before extraordinary item.....	(3,400)	(10,471)	(17,309)	(98,230)
Loss on early extinguishment of debt.....	--	--	--	31,459
Net loss.....	(3,400)	(10,471)	(17,309)	(129,689)
Preferred dividend.....	3,715	3,291	6,820	5,599
Preferred dividend -- amortization of preferred discount.....	923	923	1,847	5,095
Net loss available to common shareholders.....	\$ (8,038)	\$ (14,685)	\$ (25,976)	\$ (140,383)
Loss per common share before extraordinary item, basic and diluted.....				
	\$ (0.43)	\$ (0.90)	\$ (1.51)	\$ (6.70)
Loss per common share, basic and diluted.....				
	\$ (0.43)	\$ (0.90)	\$ (1.51)	\$ (8.63)
<b>CASH FLOW DATA:</b>				
Cash provided by operating activities before changes in working capital.....	\$ 12,583	\$ 5,687	\$ 15,286	\$ 9,788
Cash provided by operating activities.....	8,339	3,017	13,707	11,567
Cash used in investing activities.....	(11,328)	(10,861)	(22,241)	(191,375)
Cash provided by financing activities.....	5,723	7,424	8,828	165,375
<b>BALANCE SHEET DATA (at end of period):</b>				
Total assets.....	246,126	236,500	238,397	237,288
Long-term debt, net.....	315,958	313,353	319,857	301,179
Stockholder's equity (deficit).....	(104,433)	(94,376)	(101,035)	(83,921)

## GOTHIC ENERGY CORPORATION

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

## GENERAL

As a consequence of Gothic's holding company structure, all of Gothic's natural gas and oil acquisition, development, exploitation, exploration and production activities are conducted through Gothic Production, the wholly owned operating subsidiary of Gothic. The sole material asset of Gothic, the parent corporation, is the outstanding capital stock of Gothic Production. During the six months ended June 30, 2000, the parent corporation had approximately \$5.2 million of interest expense and related note amortization costs on its outstanding 14 1/8% senior secured discount notes due 2006. Additionally, it recognized \$4.6 million in preferred dividends and amortization of preferred discount on its Series B convertible preferred stock during the six months ended June 30, 2000.

As part of its ongoing efforts to restructure and improve its balance sheet, Gothic had negotiated agreements with the holders of its senior secured discount notes intended to result in the conversion of that indebtedness into equity securities of Gothic. Subsequently, Chesapeake purchased 99.8% of the principal amount of those notes. Negotiations between Gothic and Chesapeake followed and Gothic announced on June 30, 2000 its intention to merge with a subsidiary of Chesapeake in exchange for 4,000,000 shares of Chesapeake's common stock. A definitive merger agreement was executed on September 8, 2000. The parties expect the transaction to close in January 2001, subject to shareholder approval and satisfaction of other closing conditions.

The following table reflects certain summary operating data for the periods presented:

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEMBER 31,	
	2000	1999	1999	1998
(IN THOUSANDS, UNLESS OTHERWISE INDICATED)				
Net Production:				
Oil (MBbls).....	79	75	158	257
Natural gas (MMcf).....	12,641	12,891	25,477	24,455
Natural gas equivalent (MMcfe).....	13,115	13,341	26,425	25,997
Oil and Natural Gas Sales:				
Oil.....	\$ 1,722	\$ 1,045	\$ 2,671	\$ 3,469
Natural gas.....	30,141	22,372	50,296	47,245
Total.....	\$31,863	\$23,417	\$52,967	\$50,714
	=====	=====	=====	=====
Average Sales Price:(1)				
Oil (Bbl).....	\$ 21.80	\$ 13.93	\$ 16.91	\$ 13.50
Natural gas (Mcf).....	2.38	1.74	1.97	1.93
Natural gas equivalent (Mcfe).....	2.43	1.76	2.00	1.95
Expenses (\$ per Mcfe):				
Lease operating(2).....	\$ 0.18	\$ 0.22	\$ 0.22	\$ 0.33
General and administrative.....	0.15	0.15	0.18	0.14
Depreciation, depletion and amortization(3).....	0.73	0.80	0.77	0.91

(1) Includes the effect of hedging activity (see note 1 of notes to Gothic's unaudited consolidated financial statements).

(2) These amounts exclude production taxes.

(3) These amounts represent depletion of oil and natural gas properties only.

## RESULTS OF OPERATIONS

Three Months Ended June 30, 2000 Compared with Three Months Ended June 30, 1999.

Revenues were \$17.7 million for the three months ended June 30, 2000, as compared to \$13.2 million for the three months ended June 30, 1999. This represents a 34% increase in total revenue for the period. Natural gas and oil sales for the three months ended June 30, 2000 increased \$4.4 million (35%) to \$17.0 million, with \$741,000 from oil sales and \$16.3 million from natural gas sales, as compared to natural gas and oil sales of \$12.6 million for the three months ended June 30, 1999, with \$564,000 from oil sales and \$12.0 million from natural gas sales. The increase in natural gas and oil sales was the result of higher commodity prices within the natural gas and oil industry during 2000. Oil sales in 2000 were based on the sale of 35,000 barrels at an average price of \$21.17 per barrel as compared to 35,000 barrels at an average price of \$16.11 per barrel in 1999. Natural gas sales in 2000 were based on the sale of 6,446,000 Mcf at an average price of \$2.53 per Mcf compared to 6,469,000 Mcf at an average price of \$1.86 per Mcf in 1999.

Gothic incurred lease-operating expenses for the three months ended June 30, 2000 of \$2.5 million compared with lease-operating expenses of \$2.3 million for the three months ended June 30, 1999. Lease operating expenses include approximately \$1.3 million and \$883,000, respectively, in production taxes, which Gothic incurred from its share of production in 2000 and 1999. The 2000 production taxes were reduced by approximately \$300,000 in tax rebates for which Gothic is eligible. Lease operating expenses as a percentage of natural gas and oil sales were 14% in 2000 as compared to 18% in 1999.

Depreciation, depletion and amortization expense was \$4.7 million for the three months ended June 30, 2000 as compared to \$5.4 million for the three months ended June 30, 1999. The decrease resulted primarily from an increase in Gothic's reserve base caused by higher commodity prices, which in turn lowers Gothic's depletion rate.

General and administrative costs were \$1.0 million for both the three months ended June 30, 2000 and 1999. General and administrative costs per Mcfe were \$0.15 in 2000, the same as the 1999 period.

Interest and debt issuance costs were \$9.7 million for the three months ended June 30, 2000 as compared to \$9.5 million for 1999. The increase primarily relates to interest, associated with the discount notes issued as part of Gothic's recapitalization in April 1998. Gothic incurred interest costs of \$6.5 million related to its 11 1/8% senior secured notes, \$2.5 million related to the discount notes, \$265,000 with Bank One, Texas, N.A. and \$455,000 as amortization of loan costs during the three months ended June 30, 2000.

Gothic also incurred \$2.4 million in preferred dividends and amortization of preferred discount costs on its Series B preferred stock during the three months ended June 30, 2000, compared to \$2.1 million in 1999.

Six Months Ended June 30, 2000 Compared with Six Months Ended June 30, 1999.

Revenues were \$33.2 million for the six months ended June 30, 2000, as compared to \$24.7 million for the six months ended June 30, 1999. This represents a 34% increase in total revenue for the period. Natural gas and oil sales for the six months ended June 30, 2000 increased \$8.5 million (36%) to \$31.9 million, with \$1.7 million from oil sales and \$30.2 million from natural gas sales, as compared to natural gas and oil sales of \$23.4 million for the six months ended June 30, 1999, with \$1.0 million from oil sales and \$22.4 million from natural gas sales. The increase in natural gas and oil sales was the result of higher commodity prices within the natural gas and oil industry during 2000. Oil sales in 2000 were based on the sale of 79,000 barrels at an average price of \$21.80 per barrel as compared to 75,000 barrels at an average price of \$13.93 per barrel in 1999. Natural gas sales in 2000 were based on the sale of 12,641,000 Mcf at an average price of \$2.38 per Mcf compared to 12,891,000 Mcf at an average price of \$1.74 per Mcf in 1999.

Gothic incurred lease-operating expenses for the six months ended June 30, 2000 of \$4.4 million compared with lease operating expenses of \$4.6 million for the six months ended June 30, 1999. Lease operating expenses include approximately \$2.0 million and \$1.6 million, respectively, in production taxes, which Gothic incurred from its share of production in 2000 and 1999. The 2000 production taxes were reduced by approximately \$625,000 for tax rebates for which Gothic is eligible. In addition to the production tax rebates, lease-operating expenses were lower in 2000 due to efficiencies realized from the use of Gothic's telemetry equipment, lower compressor charges, and the effect of certain gas balancing adjustments made in the 1999 period. Lease operating expenses as a percentage of natural gas and oil sales were 14% in 2000 as compared to 20% in 1999.

Depreciation, depletion and amortization expense was \$10.0 million for the six months ended June 30, 2000 as compared to \$10.7 million for the six months ended June 30, 1999. The lower depreciation, depletion and amortization in 2000 resulted primarily from an increase in Gothic's reserve base caused by higher commodity prices in 2000, which in turn lowered Gothic's depletion rate.

General and administrative costs were \$2.0 million for both the six months ended June 30, 2000 and 1999. General and administrative costs per Mcfe were \$0.15 in 2000, the same as in the 1999 period.

Interest and debt issuance costs were \$19.5 million for the six months ended June 30, 2000 as compared to \$18.7 million for 1999. The increase primarily relates to interest associated with the discount notes issued as part of Gothic's recapitalization in April 1998. Gothic incurred interest costs of \$13.1 million related to the 11 1/8% senior secured notes, \$5.1 million related to the discount notes, \$409,000 with Bank One, Texas, N.A. and \$907,000 as amortization of loan costs during the six months ended June 30, 2000.

Gothic earned \$50,000 in interest and other income during the six months ended June 30, 2000 compared to \$817,000 in 1999. The 1999 amount includes \$720,000 from the sale of seismic data.

Gothic also incurred \$4.6 million in preferred dividends and amortization of preferred discount costs on its Series B preferred stock during the six months ended June 30, 2000, compared to \$4.2 million in 1999.

The Year Ended December 31, 1999 Compared with the Year Ended December 31, 1998.

Gothic revenues were \$55.6 million for the year 1999 as compared to \$53.0 million for the year 1998. This represents a 5% increase in total revenue for 1999. Natural gas and oil sales for the year ended 1999 increased \$2.3 million to \$53.0 million compared to \$50.7 million in 1998, or an increase of 5%. Of the 1999 revenues, \$2.7 million was from oil sales and \$50.3 million was from natural gas sales. In 1998, Gothic had \$3.5 million from oil sales and \$47.2 million from natural gas sales. The increase in natural gas and oil sales was primarily the result of higher commodity prices for both natural gas and oil in 1999 compared to 1998. Oil sales in 1999 were based on the sale of 158,000 barrels at an average price of \$16.91 per barrel as compared to 257,000 barrels at an average price of \$13.50 per barrel in 1998. Natural gas sales in 1999 were based on the sale of 25.5 Bcf at an average price of \$1.97 per Mcf compared to 24.5 Bcf at an average price of \$1.93 per Mcf in 1998.

Gothic incurred lease-operating expenses during 1999 of \$9.6 million compared with lease operating expenses of \$12.1 million for 1998. Lease operating expenses include approximately \$3.9 million and \$3.5 million in production taxes, which Gothic incurred from its share of production in 1999 and 1998, respectively. The decrease in lease operating expenses is primarily due to certain non-recurring costs associated with the Amoco acquisition transition, which were incurred during the first quarter of 1998, and the sale of oil properties in the Johnson Ranch and Brushy Draw areas in early 1999, which had high operating costs. Lease operating expenses and production taxes as a percentage of natural gas and oil sales decreased to 18% in 1999 as compared to 24% in 1998. Lease operating expenses per Mcfe decreased to \$0.22 for 1999 compared to \$0.33 in 1998. Both of these decreases are due to more widespread use of telemetry and other more efficient means of operating Gothic properties that were acquired as part of the transaction with Amoco in early 1998.

Depreciation, depletion and amortization expense was \$21.0 million for 1999 as compared to \$24.0 million for 1998. The decrease resulted primarily from the write-down of natural gas and oil properties in the latter half of 1998, which created a smaller depletable base.

General and administrative costs were \$4.7 million for 1999 as compared to \$3.8 million for 1998. This increase was primarily the result of personnel added and other costs incurred related to the Amoco acquisition and the administrative costs incurred in operating and developing the wells acquired. The costs per Mcfe increased from \$0.14 in 1998 to \$0.18 in 1999. Gothic also incurred investment banking and related fees in 1999 of \$638,000 in connection with efforts to restructure Gothic's balance sheet.

Gothic accounts for oil and gas exploration and development activities using the full cost method of accounting prescribed by the SEC. Accordingly, all productive and non-productive costs incurred in connection with the acquisition, exploration and development of natural gas and oil reserves are capitalized and depleted using the units-of-production method based on proved oil and gas reserves. Gothic capitalizes costs including salaries and related fringe benefits of employees directly engaged in the acquisition, exploration and development of natural gas and oil properties, as well as other directly identifiable general and administrative costs associated with these activities. These costs do not include any costs related to production, general corporate overhead, or similar activities. Independent petroleum engineers estimate Gothic's natural gas and oil reserves annually. The calculation of depreciation, depletion and amortization includes estimated future expenditures that Gothic believes it will incur in developing proved reserves and the estimated dismantlement and abandonment costs, net of salvage values. In the event the unamortized cost of the natural gas and oil properties being amortized exceeds the full cost ceiling as defined by the SEC, the amount of the excess is charged to expense in the period during which the excess occurs. The full cost ceiling is based principally on the estimated future discounted net cash flows from Gothic's natural gas and oil properties. Changes in the estimates or declines in prevailing natural gas and oil prices could cause Gothic to reduce in the near term the carrying value of the natural gas and oil properties. A write-down arising out of these conditions is referred to throughout the natural gas and oil industry as a full cost ceiling write-down.

During the year ended December 31, 1998, Gothic made a \$76.0 million pre-tax provision for impairment of its natural gas and oil properties because of the drop in natural gas and oil prices during the last half of 1998. The full cost ceiling at December 31, 1998 was based on natural gas prices received at the time of \$1.81 per Mcf and oil prices received of \$10.50 per Bbl. This provision resulted from a full cost ceiling write-down. The write-down is shown on the balance sheet as a reduction of the cost of natural gas and oil properties. Gothic had no full cost ceiling write-down during 1999.

Interest and debt issuance costs were \$38.0 million for 1999 as compared to \$35.4 million for 1998. This increase was primarily because of higher debt levels associated with the senior secured notes which were issued in April 1998 by Gothic Production, interest on the discount notes which Gothic issued in April 1998, and amortization of the costs incurred to complete the sale of these notes and amendments to the bank credit facility. Gothic incurred interest costs of \$26.1 million related to the senior secured notes, \$9.7 million related to the discount notes, \$397,000 with the bank, and \$1.8 million as amortization of loan costs.

Gothic recorded an extraordinary loss on the early extinguishment of debt in the amount of \$31.5 million during 1998. The 1998 amount reflects the payment of \$20.8 million in consent fees, \$6.3 million in the write-off of unamortized discount and debt issuance costs and \$4.4 million in unamortized bank loan costs. Gothic obtained consents to the amendment of the terms of its 12 1/4% senior notes in early 1998 prior to repaying the notes and also prepaid the bank credit facility in April 1998.

Profitability and revenues are dependent, to a significant extent, upon prevailing spot market prices for natural gas and oil. Natural gas and oil prices and markets have been volatile. Prices are subject to wide fluctuations in response to changes in supply of and demand for natural gas and oil, market uncertainty and a variety of additional factors that are beyond Gothic's control. Such factors include political conditions, weather conditions, government regulations, the price and availability of alternative fuels and overall economic conditions. Natural gas prices have fluctuated significantly since early 1998.



Gothic uses the sales method for recording natural gas sales. Oil and condensate production is sold, title passed, and revenue recognized at or near the wells under short-term purchase contracts at prevailing prices in accordance with arrangements, which are customary in the natural gas and oil industry. Gas sales are recorded as revenues when the gas is metered and title transferred pursuant to the gas sales contracts. During such times as the sales of gas exceed the pro rata ownership in a well, such sales are recorded as revenues unless total sales from the well have exceeded Gothic's share of estimated total gas reserves underlying the property at which time the excess is recorded as a gas balancing liability. Such imbalances are incurred from time to time in the ordinary course of business in the operation of gas wells as a consequence of operational factors. Certain of such gas balancing liabilities were assumed as part of the acquisition of natural gas and oil properties.

At December 31, 1999, Gothic had deferred charges related to gas balancing of \$1.5 million and a gas balancing liability of \$3.6 million, including \$900,000 of deferred credits. The balances that existed at December 31, 1999, except for possible immaterial amounts, were not the result of producing operations Gothic conducted but related to the assets acquired. It is not Gothic's policy to operate wells in such a manner that imbalances are created. Gothic expects that the imbalances that existed at December 31, 1999 will be settled upon abandonment of the wells or will be reflected in the price if the respective well interest is sold prior to then.

#### LIQUIDITY AND CAPITAL RESOURCES

##### General.

Since 1994, Gothic's principal sources of cash have been bank borrowings, the sale of equity and debt securities and cash flow from operations. The following summary table reflects comparative cash flows for Gothic for the six months ended June 30, 2000 and 1999, and the years ended December 31, 1999 and 1998:

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEMBER 31,	
	2000	1999	1999	1998
	(IN THOUSANDS)			
Net cash provided by operating activities.....	\$ 8,339	\$ 3,017	\$13,707	\$ 11,567
Net cash used by investing activities.....	11,328	10,861	22,241	191,375
Net cash provided by financing activities.....	5,723	7,424	8,828	165,375

##### Six Months Ended June 30, 2000 and 1999.

Net cash provided by operations was \$8.3 million for the six months ended June 30, 2000 as compared to net cash provided of \$3.0 million for the same period in 1999. The operating cash flows for the six months ended June 30, 2000 reflect the increase in income from operations resulting from higher commodity prices, partially offset by changes in working capital.

Gothic used \$11.3 million of net cash in investing activities for the six months ended June 30, 2000 compared to net cash used of \$10.9 million for the same period in 1999. The 2000 amount includes well enhancement costs of approximately \$12.2 million and approximately \$779,000 in cash paid for property acquisitions and equipment, offset by approximately \$1.6 million received from the sale of properties. The 1999 cash used for investing activities includes property development costs of approximately \$9.3 million and approximately \$3.7 million in cash paid for property acquisitions. These uses were partially offset by proceeds of \$2.1 million received from the sale of substantially all of Gothic's Johnson Ranch operations.

Net cash provided by financing activities for the six months ended June 30, 2000 was \$5.7 million compared to \$7.4 million provided in 1999. The June 30, 2000 amount represents the net increase in borrowing under Gothic's credit facility during the six months. The June 30, 1999 amount includes proceeds from Gothic's credit facility of \$7.5 million, partially offset by the payment of \$76,000 in bank and other loan fees.

Years Ended December 31, 1999 and 1998.

Net cash provided by operations increased to \$13.7 million for 1999 as compared to net cash provided of \$11.6 million for 1998. The improved operating cash flows for 1999 relate primarily to the increase in income from operations before non-cash charges, partially offset by increased interest costs and a reduction of other liabilities.

Gothic used \$22.2 million of net cash in investing activities for 1999 compared to net cash used of \$191.4 million in 1998. The 1999 cash used for investing activities includes property development costs of approximately \$21.1 million and approximately \$3.4 million in cash paid for property and equipment acquisitions. These uses were partially offset by proceeds of \$2.2 million received from the sale of substantially all of Gothic's Johnson Ranch properties. The 1998 cash used for investing activities includes approximately \$218.7 million paid for property acquisitions and \$18.4 million for development costs, including the Amoco acquisition, offset by approximately \$44.7 million received from property sales.

Net cash provided by financing activities for 1999 was \$8.8 million compared to \$165.4 million provided in 1998. The 1999 amount includes net proceeds from the credit facility of \$9.0 million, partially offset by the payment of \$172,000 in bank and other loan fees. The 1998 amount includes proceeds from long-term debt, related to the Amoco acquisition and the subsequent recapitalization, of \$431.3 million and proceeds from the issuance of the Series A and Series B preferred stock of \$73.5 million, partially offset by the redemption of the Series A preferred stock and accrued dividends for \$40.8 million, payment of \$38.5 million in 12 1/4% senior notes consent fees and other bank and offering fees and payments of short and long-term debt of \$259.9 million.

#### CREDIT FACILITY

On April 27, 1998, Gothic entered into a credit facility, with Bank One. This credit facility consists of a revolving line of credit, and had an initial borrowing base of \$25,000,000. Borrowings are limited to being available for the acquisition and development of natural gas and oil properties, letters of credit and general corporate purposes. The borrowing base is redetermined at least semi-annually. Upon completion of the April 1, 2000 redetermination, the borrowing base was reduced to \$15,000,000. The principal is due at maturity, April 30, 2001. Interest is payable monthly calculated at the Bank One Base Rate, as determined from time to time by Bank One. Gothic may elect to calculate interest under a London Interbank Offered Rate, or LIBOR, plus 1.5%, or up to 2.0% in the event the loan balance is greater than 75% of the borrowing base). Gothic is required to pay a commitment fee on the unused portion of the borrowing base equal to 1/2 of 1% per annum. Under the credit facility, Bank One holds first priority liens on substantially all of the natural gas and oil properties of Gothic whether currently owned or hereafter acquired. As of June 30, 2000, Gothic had \$14.7 million outstanding under the credit facility.

The credit facility requires, among other things, semi-annual engineering reports covering oil and natural gas reserves on the basis of which semi-annual and other redeterminations of the borrowing base and monthly commitment reduction are made. The credit facility, as amended on May 7, 1999, also includes various affirmative and negative covenants, including, among others, (1) prohibitions against additional indebtedness unless approved by the lenders, subject to certain exceptions, (2) prohibitions against the creation of liens on the assets of Gothic subject to certain exceptions, (3) prohibitions against cash dividends, (4) prohibitions against hedging positions unless consented to by Bank One, (5) prohibitions on asset sales, subject to certain exceptions, (6) restrictions on mergers or consolidations, (7) a requirement to maintain a ratio of current assets to current liabilities of 1.0 to 1.0, and (8) a minimum interest coverage ratio of not less than 2.0 to 1.0 for each quarter starting with the quarter ending March 31, 2000. The credit facility includes covenants prohibiting distributions, loans or advances to third parties, subject to certain exceptions. If Gothic is required to purchase or redeem any portion of the 11 1/8% senior secured notes, or if any portion of the 11 1/8% senior secured notes become due, the borrowing base is subject to reduction. Gothic is required to escrow interest payments due on the 11 1/8% senior secured notes at such times as its borrowings under the credit facility equal or exceed 75% of the borrowing base. Events of default include the non-payment of principal, interest or fees, a default

under other outstanding indebtedness, a breach of the representations and warranties contained in the loan agreement, material judgments, bankruptcy or insolvency, a default under certain covenants not cured within a grace period, and a change in the management or control of Gothic. For the quarter ended March 31, 2000, Gothic failed to meet both the interest coverage ratio and the current ratio tests. The interest coverage ratio was 1.81 to 1.0 for the quarter, and the current ratio was .92 to 1.0 at March 31, 2000. Gothic requested and received a waiver of compliance with both covenants at March 31, 2000. At June 30, 2000 Gothic was in compliance with all covenants under the credit facility.

#### FUTURE CAPITAL REQUIREMENTS AND RESOURCES

Gothic's capital requirements relate to the acquisition, exploration, enhancement, development and operation of natural gas and oil properties. In general, because the natural gas and oil reserves Gothic has acquired are depleted by production over time, the success of its business strategy is dependent upon a continuous acquisition, exploitation, enhancement, and development program. In order to achieve profitability and generate cash flow, Gothic will be dependent upon acquiring or developing additional natural gas and oil properties or entering into joint natural gas and oil well development arrangements.

#### SUBSEQUENT EVENTS

On June 30, 2000 Gothic announced it had reached an agreement with Chesapeake to merge with a wholly owned subsidiary of Chesapeake, in exchange for 4,000,000 shares of Chesapeake's common stock. On September 8, 2000, the parties executed a definitive merger agreement.

Gothic's previously announced plan of restructuring, which contemplated the redemption of Chesapeake's holding of Gothic's preferred and common stock for oil and gas properties and other considerations, the exchange of the \$104,000,000 discount notes in exchange for 94% of Gothic's equity and an equity rights offering of \$15,000,000, have been terminated in anticipation of this transaction.

The merger is subject to approval by Gothic's shareholders and other closing conditions. Both boards of directors have unanimously approved the transaction. Completion of the transaction is expected in January 2001.

At June 30, 2000, Gothic had 18,685,765 common shares outstanding, plus employee and director options to purchase 4,435,000 shares. Of the outstanding shares, Chesapeake owns 2,394,125 shares and these shares will not participate in the exchange for the 4,000,000 Chesapeake common shares to be received by Gothic's other shareholders.

Gothic loaned \$90,000 to certain employees and one director in the form of notes payable to Gothic, at an interest rate of 6% per annum, due and payable on July 31, 2001. On July 11, 2000, the employees and the director of Gothic exercised 225,000 outstanding common stock options. The options were exercised upon the payment of \$90,000 to Gothic.

Gothic loaned \$1,739,000 to certain employees, two officers and two directors in the form of notes payable to Gothic, at an interest rate of 6% per annum, due and payable on July 31, 2001. On August 1, 2000 these individuals exercised 4,165,000 outstanding common stock options. Of the total options exercised, 4,155,000 options were exercised upon payment of \$1,739,500 to Gothic, and 10,000 options were exercised under the cashless exercise provisions of the option plan.

Reflecting the exercise of these options, 45,000 common stock options remain outstanding at August 4, 2000.

## CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

With the exception of historical matters, the matters discussed in this proxy statement/prospectus are "forward-looking statements" as defined under the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties. Forward-looking statements include, but are not limited to, the matters described below, as well as notes 2 and 3 to the notes to Gothic's audited consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Such forward-looking statements relate to Gothic's ability to attain and maintain profitability and cash flow, the stability of and future prices for oil and gas, the ability of Gothic to expand through acquisitions and to redeploy its equipment among regional operations, the ability of Gothic to raise additional capital to meet its requirements and to obtain additional financing, its ability to successfully implement its business strategy, its ability to obtain waivers from the bank under its credit facility and its ability to maintain compliance with the covenants of its various loan documents and other agreements pursuant to which securities have been issued. Such forward-looking statements also relate to the completion of Gothic's merger with a subsidiary of Chesapeake and its ability to restructure its balance sheet if the merger is not completed. The inability of Gothic to meet these objectives or the consequences on Gothic from adverse developments attempting to complete these objectives, or in general economic conditions, adverse developments in the oil and gas industry, and other factors could have a material adverse effect on Gothic. Gothic cautions readers that various risk factors could cause Gothic's operating results and financial condition to differ materially from those expressed in any forward-looking statements made by Gothic and could adversely affect Gothic's financial condition and its ability to pursue its business strategy.

## GOTHIC ENERGY CORPORATION

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Gothic has involvement with derivative financial instruments, as defined in Statement of Financial Accounting Standards No. 119 "Disclosure About Derivative Financial Instruments and Fair Value of Financial Instruments," and does not use them for trading purposes. Gothic's objective is to hedge a portion of its exposure to price volatility from producing natural gas. These arrangements may expose Gothic to credit risk from its counterparty.

In July 1999, Gothic entered into a costless collar agreement with respect to the production of 50,000 MMBtu per day during the period of November 1999 through March 2000, which placed a floor of \$2.30 per MMBtu and a ceiling of \$3.03 per MMBtu. The collar represented approximately 70% of Gothic's current daily natural gas production. Collar arrangements limit the benefits Gothic will realize if actual prices rise above the ceiling price. These arrangements provide for Gothic to exchange a floating market price for a fixed range contract price. Gothic makes payments when the floating price exceeds the fixed range for a contract month and payments are received when the fixed range price exceeded the floating price. The commodity reference price for the contract was the Panhandle Eastern Pipeline Company, Texas, and Oklahoma Mainline Index.

Additionally, in January 2000, Gothic entered into a hedge agreement covering 50,000 MMBtu per day at a fixed price of \$2.435 per MMBtu. This hedge is in effect from April 2000 through October 2000. In February 2000, Gothic entered into a hedge agreement covering 20,000 MMBtu per day at a fixed price of \$2.535 per MMBtu for April 2000 and \$2.555 per MMBtu for May 2000. This hedge was in effect for the months of April and May 2000. The commodity reference price for both contracts is Panhandle Eastern, Texas, and Oklahoma Mainline Index. If the open gas hedge noted above had been settled on June 30, 2000, Gothic would have recognized a loss of approximately \$11.1 million.

In September 2000, Gothic entered into a hedge agreement covering 60,000 MMBtu per day at a fixed price of \$4.88 per MMBtu for November 2000 and \$5.00 per MMBtu for December 2000. The commodity references for both of these contracts is also Panhandle Eastern.

In August 1999, Gothic entered into a hedge agreement covering 10,000 barrels of oil per month at a fixed price of \$20.10 per barrel. This hedge was in effect from September 1999 through August 2000. Gains and losses on such natural gas and oil contracts are reflected in revenues as price adjustments in the months of related production. If the open crude oil hedge noted above had been settled on June 30, 2000, Gothic would have recognized a loss of approximately \$338,000.

## DESCRIPTION OF CHESAPEAKE CAPITAL STOCK

The description of our capital stock set forth below is not complete and is qualified by reference to our certificate of incorporation and bylaws. Copies of our certificate of incorporation and bylaws are available from Chesapeake upon request and both documents have been filed with the Securities and Exchange Commission.

## AUTHORIZED CAPITAL STOCK

Our authorized capital stock consists of 250,000,000 shares of common stock, par value \$.01 per share, and 10,000,000 shares of preferred stock, par value \$.01 per share, of which 624,037 shares are designated as 7% Cumulative Convertible Preferred Stock and 250,000 shares are designated as Series A Junior Participating Preferred Stock. As of September 29, 2000, our issued and outstanding capital stock consisted of 152,896,625 shares of common stock and 624,037 shares of convertible preferred stock. No shares of Series A preferred stock are currently outstanding. Also, an additional 16,717,235 shares of common stock were reserved for issuance upon the exercise of outstanding options granted under our stock option plans.

## COMMON STOCK

Holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Subject to preferences that may be applicable to any outstanding preferred stock, holders of our common stock are entitled to receive ratably such dividends as may be declared by the board of directors out of funds legally available for dividends. In the event of our liquidation or dissolution, holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any outstanding preferred stock.

Holders of our common stock have no preemptive rights and have no rights to convert their common stock into any other securities. All of the outstanding shares of common stock are duly authorized, validly issued, fully paid and nonassessable.

## PREFERRED STOCK

Our convertible preferred stock is described below under "7% Cumulative Convertible Preferred Stock." The Series A preferred stock is described below under "-- Anti-Takeover Provisions -- Share Rights Plan."

We have 9,375,963 shares of authorized preferred stock which are undesignated. Our board of directors has the authority, without further shareholder approval, to issue shares of preferred stock from time to time in one or more new series and to fix the number of shares, designations, preferences, voting powers, qualifications and special or relative rights or privileges of each series, including dividend rights, voting rights, redemption and sinking fund provisions, liquidation preferences and conversion rights.

While providing desirable flexibility for possible acquisitions and other corporate purposes, and eliminating delays associated with a shareholder vote on specific issuances, the issuance of preferred stock could adversely affect the voting power of holders of common stock, as well as dividend and liquidation payments on common stock. It also could have the effect of delaying, deferring or preventing a change in control.

7% Cumulative Convertible Preferred Stock. The certificate of designation for the 7% Cumulative Convertible Preferred Stock authorizes the issuance of 624,037 shares, all of which are issued and outstanding. The convertible preferred stock is, and any common stock issued upon the conversion or exchange of convertible preferred stock will be, fully paid and nonassessable. The convertible preferred stock was issued on April 22, 1998.

Ranking. The convertible preferred stock ranks:

- senior to all classes of our common stock and to each other class of capital stock or series of preferred stock that does not expressly provide that it ranks senior to or on a parity with the convertible preferred stock as to dividends and distributions upon our liquidation, winding-up or dissolution;
- on a parity with any class of capital stock or series of preferred stock issued by Chesapeake that expressly provides that it ranks on a parity with the convertible preferred stock as to dividends and distributions upon liquidation, winding-up or dissolution; and
- junior to each class of capital stock or series of preferred stock issued by Chesapeake that expressly provides that it ranks senior to the convertible preferred stock as to dividends and distributions upon our liquidation, winding-up or dissolution.

Dividends. Holders of convertible preferred stock are entitled to receive cumulative annual cash dividends of \$3.50 per share, payable quarterly in arrears out of assets legally available for dividends, on February 1, May 1, August 1 and November 1 of each year commencing August 1, 1998, when, as and if declared by the Board of Directors. Dividends will accumulate and be cumulative (whether or not declared) from the issue date. Dividends will be payable to holders of record as they appear on our stock register on the record date fixed by the Board for a payment. The record date may not be more than 60 days nor less than 10 days preceding the payment date.

Dividends payable on the convertible preferred stock for each full dividend period will be computed by dividing the annual dividend rate by four. Dividends payable on the convertible preferred stock for any period less than a full dividend period (based upon the number of days elapsed during the period) will be computed on the basis of a 360-day year consisting of twelve 30-day months.

We will not declare and pay any dividends on or redeem or purchase any of our stock ranking junior to or ratably with the convertible preferred stock, unless full cumulative dividends on the convertible preferred stock have been paid or declared and a sum sufficient for the payment of dividends is set apart. However, regardless of whether we have paid full cumulative dividends on the convertible preferred stock, we may do the following:

- (1) declare and pay a dividend on junior stock payable solely in shares of junior stock;
- (2) redeem or purchase stock ranking junior or ratably with the convertible preferred stock by conversion into or exchange for shares of our stock ranking junior to the convertible preferred stock; and
- (3) make cash payments in lieu of fractional shares.

If full dividends have not been declared and paid or set apart on the convertible preferred stock and any other preferred stock ranking ratably with the convertible preferred stock as to dividends, dividends may be declared and paid on the convertible preferred stock and the other ratable preferred stock. In this case, the dividends shall be declared and paid pro rata so that the amounts of dividends declared per share on the convertible preferred stock and the other ratable preferred stock will in all cases bear the same ratio to each other that accrued and unpaid dividends per share on the shares of the convertible preferred stock and the other preferred stock bear to each other. Moreover, if the dividends are paid in cash on the other ratable preferred stock, dividends will also be paid in cash on the convertible preferred stock.

Holders of shares of convertible preferred stock will not be entitled to any dividend, whether payable in cash, property or stock, in excess of full cumulative dividends. No interest, or sum of money in lieu of interest, will be payable in respect of any dividend payment or payments which may be in arrears.

Our ability to declare and pay cash dividends and make other distributions on our capital stock, including the convertible preferred stock, may be limited by the terms of our indentures and other

financing agreements and by Oklahoma law. See "Risk Factors -- Our debt covenants restrict our operations."

**Liquidation Preference.** Upon any dissolution, liquidation or winding up of Chesapeake, the holders of convertible preferred stock will be entitled to receive a liquidation preference of \$50 per share, plus accrued and unpaid dividends to the date of payment. These amounts will be paid before any payment or distribution is made to holders of common stock or any other stock ranking junior to the convertible preferred stock upon liquidation. The holders of convertible preferred stock and any other shares of stock of Chesapeake that rank on a parity as to liquidation rights with the convertible preferred stock are entitled to share ratably, in accordance with the respective preferential amounts payable on the stock, in any distribution which is not sufficient to pay in full the amounts to which the holders are entitled. After payment in full of the liquidation preference on the convertible preferred stock, the holders of the convertible preferred stock will have no right or claim to any of our remaining assets. The sale of all or part of our assets and the merger or consolidation of our company into or with another company will not be considered a dissolution, liquidation or winding up of Chesapeake unless the sale, merger or consolidation is in connection with the dissolution, liquidation or winding up of Chesapeake.

**Optional Redemption.** The convertible preferred stock may not be redeemed prior to May 1, 2001. Beginning May 1, 2001, we may redeem the convertible preferred stock for the prices set forth in the certificate of designation, plus accumulated and accrued dividends. The redemption price is \$52.45 per share during the first year and then declines by \$.35 per year until May 1, 2008 when the price is \$50.00. We may use cash, our common stock or a combination of cash and common stock to redeem the convertible preferred stock. The number of common shares to be delivered as payment will be determined by the market value of the shares at the time of redemption.

From and after the applicable redemption date, unless we default in the payment of the redemption price, dividends on the shares of convertible preferred stock to be redeemed on the redemption date will cease to accrue, the shares will no longer be deemed to be outstanding, and all rights of the holders of the shares as shareholders will cease, except the right to receive the redemption price.

If any dividends on convertible preferred stock are in arrears, no shares of convertible preferred stock will be redeemed unless all outstanding shares of the convertible preferred stock are simultaneously redeemed.

**Voting Rights.** The holders of the convertible preferred stock have no voting rights except as set forth below or as required by law. In exercising their voting rights, the holders of convertible preferred stock are entitled to one vote per share.

If the dividends payable on the convertible preferred stock are in arrears for six quarterly periods, the holders of the convertible preferred stock, voting separately as a class with the holders of any other preferred stock or preference securities having similar voting rights, will be entitled at the next regular or special meeting of shareholders of Chesapeake to elect two additional directors. These voting rights and the terms of the directors so elected will continue until the dividend arrearage on the convertible preferred stock has been paid in full.

The affirmative vote or consent of the holders of at least 66 2/3% of the outstanding convertible preferred stock will be required for us to issue any class or series of stock (or security convertible into stock) ranking on a parity or senior to the convertible preferred stock as to dividends, liquidation rights or voting rights and to amend our certificate of incorporation so as to affect adversely the rights of holders of the convertible preferred stock, including any increase in the authorized number of shares of preferred stock.

**Conversion Rights.** The convertible preferred stock is convertible at any time at the option of the holder into that number of whole shares of our common stock as is equal to the liquidation preference, plus accrued and unpaid dividends to the date the shares of convertible preferred stock are surrendered for conversion, divided by an initial conversion price of \$6.95, subject to adjustment upon the occurrence of dilutive events described in the certificate of designation. A share of convertible preferred stock called for



redemption will be convertible into shares of common stock up to and including the close of business on the date fixed for redemption, unless we default in payment of our redemption obligation.

Change of Control. Upon a change of control of Chesapeake, holders of convertible preferred stock will, if the market value of our common stock is less than the conversion price, have a one-time option to convert all of their outstanding shares of convertible preferred stock into shares of common stock at an adjusted conversion price equal to the greater of (1) the market value of our common stock as of the date of the change of control and (2) \$3.66. In lieu of issuing the shares of common stock issuable upon conversion in the event of a change of control, we may, at our option, make a cash payment equal to the market value of the common stock otherwise issuable.

The certificate of designation for the convertible preferred stock defines a change of control as any of the following events:

1. the sale, lease or transfer, in one or a series of related transactions, of all or substantially all of our assets to any person or group, other than to permitted holders;
2. the adoption of a plan relating to our liquidation or dissolution;
3. the acquisition, directly or indirectly, by any person or group, other than permitted holders, of beneficial ownership of more than 50% of the aggregate voting power of our voting stock; provided, however, that the permitted holders beneficially own, directly or indirectly, in the aggregate a lesser percentage of the total voting power of the voting stock than such other person and do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of our board of directors; or
4. during any period of two consecutive years, individuals who at the beginning of the period constituted our board of directors (together with any new directors whose election by such board of directors or whose nomination for election by our shareholders was approved by two-thirds of the directors then still in office who were either directors at the beginning of the period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the board of directors then in office. The term "permitted holders" means Aubrey K. McClendon and Tom L. Ward and their respective affiliates.

#### ANTI-TAKEOVER PROVISIONS

Our certificate of incorporation and bylaws and the Oklahoma General Corporation Act include a number of provisions which may have the effect of encouraging persons considering unsolicited tender offers or other unilateral takeover proposals to negotiate with our board of directors rather than pursue non-negotiated takeover attempts. These provisions include a classified board of directors, authorized blank check preferred stock, restrictions on business combinations and the availability of authorized but unissued common stock.

Classified Board of Directors. Our certificate of incorporation and bylaws contain provisions for a staggered board of directors with only one-third of the board standing for election each year. Directors can only be removed for cause. A staggered board makes it more difficult for shareholders to change the majority of the directors and instead promotes a continuity of existing management.

Oklahoma Business Combination Statute. Section 1090.3 of the Oklahoma General Corporation Act prevents an "interested shareholder" from engaging in a "business combination" with an Oklahoma corporation for three years following the date the person became an interested shareholder, unless

- prior to the date the person became an interested shareholder, the board of directors of the corporation approved the transaction in which the interested shareholder became an interested shareholder or approved the business combination,
- upon consummation of the transaction that resulted in the interested shareholder becoming an interested shareholder, the interested shareholder owns stock having at least 85% of all voting power

of the corporation at the time the transaction commenced, excluding stock held by directors who are also officers of the corporation and stock held by certain employee stock plans, or

- on or subsequent to the date of the transaction in which the person became an interested shareholder, the business combination is approved by the board of directors of the corporation and authorized at a meeting of shareholders by the affirmative vote of the holders of two-thirds of all voting power not attributable to shares owned by the interested shareholder.

The statute defines a "business combination" to include

- any merger or consolidation involving the corporation and an interested shareholder,
- any sale, lease, exchange, mortgage, pledge, transfer or other disposition to or with an interested shareholder of 10% or more of the assets of the corporation,
- subject to certain exceptions, any transaction which results in the issuance or transfer by the corporation of any stock of the corporation to an interested shareholder,
- any transaction involving the corporation which has the effect of increasing the proportionate share of the stock of any class or series or voting power of the corporation owned by the interested shareholder,
- the receipt by an interested shareholder of any loans, guarantees, pledges or other financial benefits provided by or through the corporation, or
- any share acquisition by the interested shareholder pursuant to Section 1090.1 of the Oklahoma General Corporation Act. For purposes of Section 1090.3, the term "corporation" also includes the corporation's majority-owned subsidiaries.

In addition, Section 1090.3 defines an "interested shareholder," generally, as any person that owns stock having 15% or more of all voting power of the corporation, any person that is an affiliate or associate of the corporation and owned stock having 15% or more of all voting power of the corporation at any time within the three-year period prior to the time of determination of interested shareholder status, and any affiliate or associate of such person.

**Stock Purchase Provisions.** Our certificate of incorporation includes a provision which requires the affirmative vote of two-thirds of the votes cast by the holders, voting together as a single class, of all then outstanding shares of capital stock, excluding the votes by an interested shareholder, to approve the purchase of any of our capital stock from the interested shareholder at a price in excess of fair market value, unless the purchase is either (1) made on the same terms offered to all holders of the same securities or (2) made on the open market and not the result of a privately negotiated transaction.

#### Share Rights Plan.

The Rights. On July 7, 1998, our board of directors declared a dividend distribution of one preferred stock purchase right for each outstanding share of common stock. The distribution was paid on July 27, 1998 to the shareholders of record on that date. Each right entitles the registered holder to purchase from us one one-thousandth of a share of Series A preferred stock at a price of \$25.00, subject to adjustment.

The following is a summary of these rights. The full description and terms of the rights are set forth in a rights agreement with UMB Bank, N.A., as rights agent. Copies of the rights agreement and the certificate of designation for the Series A preferred stock are available free of charge. This summary description of the rights and the Series A preferred stock does not purport to be complete and is qualified in its entirety by reference to all the provisions of the rights agreement and the certificate of designation for the Series A preferred stock.

Initially, the rights attached to all certificates representing shares of our outstanding common stock, and no separate rights certificates were distributed. The rights will separate from our common stock and the distribution date will occur upon the earlier of:

- 10 days following the date of public announcement that a person or group of persons has become an acquiring person, or
- 10 business days (or a later date set by the board of directors prior to the time a person becomes an acquiring person) following the commencement of, or the announcement of an intention to make, a tender offer or exchange offer upon consummation of which the offeror would, if successful, become an acquiring person. The earlier of these dates is called the distribution date.

The term "acquiring person" means any person who or which, together with all of its affiliates and associates, is the beneficial owner of 15% or more of our outstanding common stock, but does not include:

- Chesapeake or any of our subsidiaries or employee benefit plans,
- Aubrey K. McClendon, his spouse, lineal descendants and ascendants, heirs, executors or other legal representatives and any trusts established for the benefit of the foregoing or any other person or entity in which the foregoing persons or entities are at the time of determination the direct record and beneficial owners of all outstanding voting securities (each a "McClendon shareholder"),
- Tom L. Ward, his spouse, lineal descendants and ascendants, heirs, executors or other legal representatives and any trusts established for the benefit of the foregoing, or any other person or entity in which the foregoing persons or entities are at the time of determination the direct record and beneficial owners of all outstanding voting securities (each a "Ward shareholder"),
- Morgan Guaranty Trust Company of New York, in its capacity as pledgee of shares beneficially owned by a McClendon or Ward shareholder, or both, under any pledge agreement in effect on September 11, 1998, to the extent that upon the exercise by the pledgee of any of its rights or duties as pledgee, other than the exercise of any voting power by the pledgee or the acquisition of ownership by the pledgee, such pledgee becomes a beneficial owner of pledged shares, or
- any person (other than the pledgee just described) that is neither a McClendon nor Ward shareholder, but who or which is the beneficial owner of common stock beneficially owned by a McClendon or Ward shareholder (a "second tier shareholder"), but only if the shares of common stock otherwise beneficially owned by a second tier shareholder ("second tier holder shares") do not exceed the sum of (A) the holder's second tier holder shares held on September 11, 1998 and (B) 1% of the shares of our common stock then outstanding (collectively, "exempt persons").

The rights agreement provides that, until the distribution date, the rights will be transferred with and only with the common stock. Until the distribution date (or earlier redemption or expiration of the rights), new common stock certificates issued after July 27, 1998, upon transfer or new issuance of common stock, will contain a notation incorporating the rights agreement by reference. Until the distribution date or earlier redemption or expiration of the rights, the surrender for transfer of any certificate for common stock, outstanding as of July 27, 1998, even without a notation or a copy of a summary of the rights being attached, will also constitute the transfer of the rights associated with the common stock represented by the certificate. As soon as practicable following the distribution date, separate certificates evidencing the rights will be mailed to holders of record of the common stock as of the close of business on the distribution date and these separate rights certificates alone will evidence the rights.

The rights are not exercisable until the distribution date. The rights will expire on July 27, 2008.

The purchase price payable, and the number of one one-thousandths of a share of Series A preferred stock or other securities or property issuable, upon exercise of the rights are subject to adjustment from time to time to prevent dilution:

- in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Series A preferred stock;
- upon the grant to holders of the Series A preferred stock of certain rights or warrants to subscribe for or purchase shares of Series A preferred stock at a price, or securities convertible into Series A preferred stock with a conversion price, less than the then current market price of the Series A preferred stock; or
- upon the distribution to holders of the Series A preferred stock of evidences of indebtedness or assets (excluding regular periodic cash dividends paid or dividends payable in Series A preferred stock) or of subscription rights or warrants (other than those referred to above).

The number of outstanding rights and the number of one one-thousandths of a share of Series A preferred stock issuable upon exercise of each right are also subject to adjustment in the event of a stock split of the common stock or a stock dividend on the common stock payable in the common stock or subdivisions, consolidations or combinations of the common stock occurring, in any such case, prior to the distribution date.

In the event that following the date of public announcement that an acquiring person has become an acquiring person, we are acquired in a merger or other business combination transaction or more than 50% of our consolidated assets or earning power is sold, proper provision will be made so that each holder of a right will thereafter have the right to receive, upon the exercise of the right at the then current exercise price of the right, that number of shares of common stock of the acquiring company which at the time of such transaction will have a market value of two times the exercise price of the right (the "flip-over right").

In the event that a person, other than an exempt person, becomes an acquiring person, proper provision will be made so that each holder of a right, other than the acquiring person and its affiliates and associates, will thereafter have the right to receive upon exercise that number of shares of common stock, or, if applicable, cash, other equity securities or property of Chesapeake, having a market value equal to two times the purchase price of the rights (the "flip-in right"). Any rights that are or were at any time owned by an acquiring person will then become void.

With certain exceptions, no adjustment in the purchase price will be required until cumulative adjustments require an adjustment of at least 1% in the purchase price. Upon exercise of the rights, no fractional shares of Series A preferred stock will be issued other than fractions which are integral multiples of one one-hundredth of a share of Series A preferred stock. Cash will be paid in lieu of fractional shares of Series A preferred stock that are not integral multiples of one one-hundredth of a share of Series A preferred stock.

At any time prior to the earlier to occur of (1) 5:00 p.m., Oklahoma City, Oklahoma time on the 10th day after the stock acquisition date or (2) the expiration of the rights, we may redeem the rights in whole, but not in part, at a price of \$0.01 per right; provided, that (a) if the board of directors authorizes redemption on or after the time a person becomes an acquiring person, then the authorization must be by board approval and (b) the period for redemption may, upon board approval, be extended by amending the rights agreement. Board approval means the approval of a majority of our directors. Immediately upon any redemption of the rights described in this paragraph, the right to exercise the rights will terminate and the only right of the holders of rights will be to receive the redemption price.

Our board of directors may amend the terms of the rights without the consent of the holders of the rights at any time and from time to time provided that any amendment does not adversely affect the interests of the holders of the rights. In addition, during any time that the rights are subject to redemption, the terms of the rights may be amended by the approval of a majority of the directors, including an

amendment that adversely affects the interests of the holders of the rights, without the consent of the holders of rights.

Until a right is exercised, a holder will have no rights as a shareholder, including, without limitation, the right to vote or to receive dividends. While the distribution of the rights will not be taxable to Chesapeake or our shareholders, shareholders may, depending upon the circumstances, recognize taxable income in the event that the rights become exercisable for Series A preferred stock, or other consideration.

The Series A Preferred Stock. Each one-thousandth of a share of the Series A preferred stock (a "preferred share fraction") that may be acquired upon exercise of the rights will be nonredeemable and junior to any other shares of preferred stock that we may issue.

Each preferred share fraction will have a minimum preferential quarterly dividend rate of \$0.01 per preferred share fraction but will, in any event, be entitled to a dividend equal to the per share dividend declared on the common stock.

In the event of liquidation, the holder of a preferred share fraction will receive a preferred liquidation payment equal to the greater of \$0.01 per preferred share fraction or the per share amount paid in respect of a share of common stock.

Each preferred share fraction will have one vote, voting together with the common stock. The holders of preferred share fractions, voting as a separate class, will be entitled to elect two directors if dividends on the Series A preferred stock are in arrears for six fiscal quarters.

In the event of any merger, consolidation or other transaction in which shares of common stock are exchanged, each preferred share fraction will be entitled to receive the per share amount paid in respect of each share of common stock.

The rights of holders of the Series A preferred stock to dividends, liquidation and voting, and in the event of mergers and consolidations, are protected by customary antidilution provisions.

Because of the nature of the Series A preferred stock's dividend, liquidation and voting rights, the economic value of one preferred share fraction that may be acquired upon the exercise of each right should approximate the economic value of one share of our common stock.

#### SHAREHOLDER ACTION

Except as otherwise provided by law or in our certificate of incorporation or bylaws, the approval by holders of a majority of the shares of common stock present in person or represented by proxy at a meeting and entitled to vote is sufficient to authorize, affirm, ratify or consent to a matter voted on by shareholders. Our bylaws provide that all questions submitted to shareholders will be decided by a plurality of the votes cast, unless otherwise required by law, our certificate of incorporation, stock exchange requirements or any certificate of designation. The Oklahoma General Corporation Act requires the approval of the holders of a majority of the outstanding stock entitled to vote for certain extraordinary corporate transactions, such as a merger, sale of substantially all assets, dissolution or amendment of the certificate of incorporation. Our certificate of incorporation provides for a vote of the holders of two-thirds of the issued and outstanding stock having voting power, voting as a single class, to amend, repeal or adopt any provision inconsistent with the provisions of the certificate of incorporation limiting director liability and stock purchases by Chesapeake, and providing for staggered terms of directors and indemnity for directors. The same vote is also required for shareholders to amend, repeal or adopt any provision of our bylaws.

Under Oklahoma law, shareholders may take actions without the holding of a meeting by written consent or consents signed by the holders of a sufficient number of shares to approve the transaction had all of the outstanding shares of our capital stock entitled to vote thereon been present at a meeting. If shareholder action is taken by written consent, the rules and regulations of the Securities and Exchange Commission require us to send each shareholder entitled to vote on the matter, but whose consent was not

solicited, an information statement containing information substantially similar to that which would have been contained in a proxy statement.

#### REGISTRATION RIGHTS

In connection with our purchase of Gothic's senior secured discount notes and the 11 1/8% senior secured notes issued by Gothic's operating subsidiary, we entered into registration rights agreements with the former noteholders. We have recently registered for resale 9.5 million shares of our common stock, and we have agreed to register an additional 4.1 million shares, pursuant to these registration rights agreements. Registration of shares on behalf of selling shareholders results in those shares becoming freely tradeable without restriction. These sales could cause the market price of our stock to decline.

We are required to bear all of the expenses of registration under these agreements except underwriting discounts and commissions. We may not publicly sell or distribute our common stock or any securities convertible into our common stock during any underwritten offering by the former noteholders of the shares covered by the registration rights agreements for a maximum period of ninety days. If we propose to register shares of common stock under the Securities Act, other than by a registration statement on Form S-8 or Form S-4, the former noteholders have the right to receive notice of and to include the shares covered by the registration rights agreements in such registration, subject to restrictions imposed by the managing underwriter in an underwritten offering.

#### TRANSFER AGENT AND REGISTRAR

UMB Bank, N.A. is the transfer agent and registrar for our common stock and preferred stock.

## COMPARATIVE RIGHTS OF CHESAPEAKE AND GOTHIC SHAREHOLDERS

## GENERAL

Following the merger, holders of record of Gothic common stock as of immediately prior to the effective time of the merger will become holders of Chesapeake common stock and the rights of such holders will be governed by the certificate of incorporation and bylaws of Chesapeake. The rights of Chesapeake's shareholders differ in certain respects from the rights of Gothic's shareholders. Because both Gothic and Chesapeake are organized and exist under Oklahoma law and are subject to the corporate laws of Oklahoma, these differences arise from various provisions of the certificates of incorporation and bylaws of the two companies. Certain of the differences are summarized below, and such summary is qualified in its entirety by reference to the full text of such documents.

## LIMITATION OF DIRECTOR LIABILITY

The Oklahoma General Corporation Act provides that a corporation may include a provision in its certificate of incorporation eliminating or limiting the liability of a director to the corporation or its shareholders for monetary damages, provided that such provision may not eliminate or limit the liability of a director for:

- any breach of such director's duty of loyalty;
- acts or omissions by such director not in good faith or which involve intentional misconduct or a knowing violation of law;
- the payment of dividends or the redemption of stock in violation of the Oklahoma General Corporation Act; or
- any transaction from which such director derived an improper personal benefit.

Both Chesapeake's and Gothic's certificates of incorporation contain provisions eliminating the liability of their directors to the corporation or its shareholders for monetary damages, except in the situations listed above.

## SPECIAL MEETINGS OF SHAREHOLDERS

The Oklahoma General Corporation Act provides that special meetings of shareholders may be called by the board of directors or by the persons authorized by a corporation's certificate of incorporation or bylaws.

Chesapeake. Chesapeake's bylaws provide that a special meeting of shareholders may be called by the chairman of the board. In addition, special meetings must be called by the president or the secretary if a request in writing is made by a majority of the board or the holders of 10% or more of the outstanding stock of Chesapeake.

Gothic. Gothic's bylaws provide that a special meeting of shareholders may be called by the chairman of the board, if any, or the President. Gothic's bylaws also provide that a special meeting must be called by the president or the secretary if a request in writing is made by a majority of the board or the holders of 10% or more of the outstanding stock of Gothic.

## VOTING; ELECTION OF DIRECTORS

Under the Oklahoma General Corporation Act, a corporation's certificate of incorporation or bylaws may specify the number of shares and/or the amount of other securities having voting power required to be present or represented by proxy at a meeting in order to constitute a quorum for, and the votes that are necessary for, the transaction of any business, but in no event may a quorum consist of less than one third of the shares entitled to vote at the meeting. In the absence of any specification in the certificate of incorporation or bylaws, a majority of the shares entitled to vote, present or represented by proxy,

constitutes a quorum and action requires the affirmative vote of the majority of shares present or represented by proxy at the meeting. Unless otherwise provided in the certificate of incorporation, and except as provided in the next sentence, any action that is required or which may be taken at any annual or special meeting of the shareholders of a corporation, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote on such action were present and voted. With respect to a domestic corporation with a class of voting stock listed or traded on a national securities exchange or registered under Section 12(g) of the Securities Exchange Act of 1934 which has one thousand or more shareholders of record, any action that is required or which may be taken at any annual or special meeting of the shareholders of a corporation, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, is signed by the holders of all of the outstanding shares entitled to vote on such action.

Chesapeake. Under Chesapeake's bylaws, the presence in person or by proxy of the holders of a majority of the outstanding shares entitled to vote constitutes a quorum at any shareholder meeting. The Chesapeake bylaws provide that, unless otherwise required by law, the certificate of incorporation, stock exchange requirements, or any certificate of designation, all questions submitted to the shareholders will be decided by a plurality of the votes cast. The Chesapeake certificate of incorporation permits shareholder action by means of a consent in writing if the consent is signed by the holders of outstanding shares having not less than the minimum number of votes necessary to authorize the action at a meeting at which all shares entitled to vote on such action were present and voted.

Gothic. Gothic's bylaws provide that the presence in person or by proxy of the holders of a majority of the outstanding shares entitled to vote constitutes a quorum at any shareholder meeting. Under Gothic's bylaws, all elections are determined by plurality vote and all other matters are determined by the vote of a majority of the shares present in person or by proxy and voting on such matters. Gothic's bylaws provide that the shareholders may take action by means of a written consent signed by holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote on such action were present and voted. Gothic has fewer than one thousand shareholders of record.

#### AMENDMENTS TO CERTIFICATES OF INCORPORATION

Under the Oklahoma General Corporation Act any amendment to a corporation's certificate of incorporation must be approved at a special or annual meeting by a majority of the outstanding shares of each class entitled to vote. The holders of the outstanding shares of a class are entitled to vote as a class upon a proposed amendment, whether or not entitled to a vote by the provisions of the certificate of incorporation, if the amendment would increase or decrease the aggregate number of authorized shares or par value or adversely affect the powers, preferences or special rights of the shares of such class.

Chesapeake. Chesapeake's certificate of incorporation provides that the approval of holders of 66 2/3% of the outstanding voting shares is required in order to amend, repeal, or adopt provisions inconsistent with certain sections of its certificate of incorporation dealing with the liability of directors, certain share repurchases, the structure of the board of directors, indemnity, and amendments to the certificate of incorporation. All other sections may be amended by a majority vote as provided in the Oklahoma General Corporation Act.

Gothic. Gothic's certificate of incorporation does not contain any special provisions dealing with amendments to its certificate of incorporation. Therefore, Gothic's certificate can be amended by a majority vote of the shareholders in accordance with the Oklahoma General Corporation Act.

#### AMENDMENTS TO BYLAWS

Pursuant to the Oklahoma General Corporation Act, the power to adopt, amend or repeal bylaws is vested in the shareholders entitled to vote on such matters. Any corporation may, however, confer the



power to adopt, amend or repeal bylaws on the directors in the corporation's certificate of incorporation. The fact that this power is conferred upon the directors of a corporation will not divest the shareholders of the power, nor limit their power to adopt, amend or repeal the bylaws.

Chesapeake. Chesapeake's certificate of incorporation gives its board of directors the right to amend its bylaws. In addition, Chesapeake's certificate of incorporation provides that approval by holders of 66 2/3% of its outstanding voting securities is required for shareholders to amend the bylaws.

Gothic. Gothic's certificate of incorporation also gives the board of directors the right to amend the bylaws. However, Gothic's certificate of incorporation does not require a super-majority vote by its shareholders in order for the shareholders to amend the bylaws.

#### SHARE PURCHASE PROVISION

Chesapeake. Chesapeake's certificate of incorporation includes a provision which requires the affirmative vote of two thirds of the outstanding shares of its voting capital stock held by persons who are not "interested shareholders" to approve the repurchase of any equity securities of Chesapeake from any interested shareholder for a price in excess of fair market value, unless such repurchase is either (1) made on the same terms offered to all holders of the same securities or (2) made on the open market and not the result of a privately negotiated transaction.

Gothic. Gothic's certificate of incorporation and bylaws do not contain a similar provision.

#### NUMBER OF DIRECTORS

Under the Oklahoma General Corporation Act, the board of directors of an Oklahoma corporation must consist of one or more members and the number must be fixed by or in a manner provided for in the corporation's bylaws, unless the number is fixed by the corporation's certificate of incorporation.

Chesapeake. Chesapeake's bylaws provide that the number of directors constituting its board of directors will not be less than three nor more than 15. The number of directors is determined by resolution adopted by a vote of two thirds of the entire board or at an annual or special meeting of the shareholders by the affirmative vote of 66 2/3% of the outstanding shares entitled to vote.

Gothic. Gothic's bylaws provide that the number of directors constituting its board of directors will be the number determined by resolution of the board from time to time. If the board does not pass any such resolution, the bylaws provide that the board will consist of three members.

#### ANTI-TAKEOVER PROVISIONS

Oklahoma enacted the Control Share Acquisition Act in order to discourage hostile takeover attempts or the acquisition of a potentially controlling ownership position without the approval of a company's board of directors. The Control Share Acquisition Act only applies to issuing public corporations, as defined in the statute.

Chesapeake. Chesapeake qualifies as an issuing public corporation, but Chesapeake's certificate of incorporation contains a provision opting out of the Control Share Acquisition Act. Chesapeake's bylaws and certificate of incorporation do, however, contain several other provisions which would make a hostile acquisition of Chesapeake more difficult. These provisions include:

- Chesapeake's certificate of incorporation authorizes its board of directors to issue preferred stock, without further shareholder approval, which could have dividend, redemption, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of holders of Chesapeake's common stock.
- Chesapeake's certificate of incorporation provides for a staggered board of directors. The board is divided into three classes. The directors of each class are elected for three-year terms, with the terms of the three classes staggered so that directors from a single class are elected at each annual

meeting of shareholders. The classification of directors has the effect of making it more difficult for shareholders to change the composition of the board of directors. In addition, Chesapeake's bylaws provide that directors may only be removed for cause. These two provisions would make it more difficult for a potential hostile acquirer to gain control of the board of directors of Chesapeake.

- Chesapeake's bylaws contain provisions which establish an advance notice procedure regarding the nomination of directors by shareholders and shareholder proposals to be brought before an annual meeting.

Gothic. Gothic does not qualify as an issuing public corporation, so the Control Share Acquisition Act does not apply to Gothic. The only anti-takeover provision in Gothic's organizational documents is the provision in its certificate of incorporation that authorizes its board of directors to issue preferred stock, without further shareholder approval, which could have dividend, redemption, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of holders of Gothic's common stock.

#### FUTURE GOTHIC SHAREHOLDER PROPOSALS

Gothic does not currently expect to hold a 2001 annual meeting of shareholders because, upon consummation of the merger, Gothic will become a wholly-owned subsidiary of Chesapeake. In the event the merger is not consummated, any proposals which Gothic's shareholders intend to present for a vote at Gothic's 2001 annual meeting and which such shareholders desire to have included in Gothic's proxy statement relating to that meeting must be sent to Gothic's executive office and received by Gothic not later than January 5, 2001.

#### LEGAL MATTERS

The legality of the common stock offered hereby has been passed upon for Chesapeake by Winstead Sechrest & Minick P.C., Dallas, Texas.

#### EXPERTS

The consolidated financial statements of Chesapeake as of December 31, 1999 and 1998, and for the years ended December 31, 1999 and 1998, the six months ended December 31, 1997 and the year ended June 30, 1997, included in this proxy statement/prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in accounting and auditing.

Certain estimates of Chesapeake's oil and gas reserves included in this proxy statement/prospectus were based upon reserve reports, dated December 31, 1999, prepared by Williamson Petroleum Consultants, Inc. and Ryder Scott Company L.P., independent petroleum engineers. These estimates are included in reliance on the authority of each such firm as experts in such matters.

The consolidated financial statements of Gothic as of December 31, 1999 and for the years ended December 31, 1999 and 1998 included in this proxy statement/prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in accounting and auditing.

Certain estimates of Gothic's oil and gas reserves included in this proxy statement/prospectus were based upon a reserve report, dated March 27, 2000, prepared by Lee Keeling and Associates, Inc., independent petroleum engineers. These estimates are included in reliance on the authority of each such firm as experts in such matters.

## WHERE YOU CAN FIND MORE INFORMATION

Chesapeake and Gothic are each subject to the informational reporting requirements of the Securities Exchange Act of 1934. In accordance with the Exchange Act, each of Chesapeake and Gothic file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any reports, statements or other information regarding Chesapeake and Gothic at the following SEC locations:

Public Reference Room	New York Regional Office	Chicago Regional Office
450 Fifth Street, N.W.	7 World Trade Center	500 West Madison Street
Room 1024	Suite 1300	Suite 1400
Washington, D.C. 20549	New York, New York 10048	Chicago, Illinois 60661

Please call the SEC at 1-800-SEC-0300 for further information on the public reference rooms. Chesapeake and Gothic SEC filings are also available to the public from commercial document retrieval services and at the world wide web site maintained by the SEC at <http://www.sec.gov>. Reports, proxy statements and other information concerning Chesapeake may also be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

Chesapeake has filed this registration statement on Form S-4 with the SEC to register the Chesapeake common stock to be issued in the merger. This proxy statement/prospectus is a part of the Chesapeake registration statement and constitutes a prospectus of Chesapeake in addition to being a proxy statement of Gothic for its special meeting. As permitted by SEC rules, this proxy statement/prospectus does not contain all of the information you can find in the Chesapeake registration statement or the exhibits to the Chesapeake registration statement.

Chesapeake has supplied all information contained or incorporated by reference in this document to Chesapeake, and Gothic has supplied all such information relating to Gothic.

You should rely only on the information contained in this proxy statement/prospectus in connection with deciding your vote upon the approval of the merger agreement and the merger. Neither Chesapeake nor Gothic has authorized anyone to provide you with information different from what is contained in this proxy statement/prospectus. This proxy statement/prospectus is dated , 2000. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than such date or any other date specified, and neither the mailing of this proxy statement/prospectus to shareholders nor the issuance of Chesapeake common stock in the merger will create any implication to the contrary.

## GLOSSARY

The terms defined in this section are used throughout this proxy statement/prospectus.

Bcf. Billion cubic feet.

Bcfe. Billion cubic feet of gas equivalent.

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

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

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

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

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

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

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

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

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

Full-Cost Pool. The full-cost pool consists of all costs associated with property acquisition, exploration, and development activities for a company using the full-cost method of accounting. Additionally, any internal costs that can be directly identified with acquisition, exploration and development activities are included. Any costs related to production, general corporate overhead or similar activities are not included.

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

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

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

MBtu. One thousand Btus.

Mcf. One thousand cubic feet.

Mcfe. One thousand cubic feet of gas equivalent.

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

MMBtu. One million Btus.

MMcf. One million cubic feet.

MMcfe. One million cubic feet of gas equivalent.

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

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

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

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

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

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

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

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

Tcf. One trillion cubic feet.

Tcfe. One trillion cubic feet of gas equivalent.

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

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

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

	JUNE 30, 2000	DECEMBER 31, 1999
	-----	-----
	(\$ IN THOUSANDS)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 12,019	\$ 38,658
Restricted cash.....	4,754	192
Accounts receivable:		
Oil and gas sales.....	33,380	17,045
Oil and gas marketing sales.....	29,141	18,199
Joint interest and other, net of allowances of \$1,714,000 and \$3,218,000, respectively.....	14,399	11,247
Related parties.....	3,455	4,574
Inventory.....	3,596	4,582
Other.....	3,025	3,049
	-----	-----
Total current assets.....	103,769	97,546
	-----	-----
PROPERTY AND EQUIPMENT:		
Oil and gas properties, at cost based on full-cost accounting:		
Evaluated oil and gas properties.....	2,422,373	2,315,348
Unevaluated properties.....	32,146	40,008
Less: accumulated depreciation, depletion and amortization.....	(1,719,259)	(1,670,542)
	-----	-----
Other property and equipment.....	735,260	684,814
Less: accumulated depreciation and amortization.....	70,155	67,712
	-----	-----
Total property and equipment.....	(35,099)	(33,429)
	-----	-----
Total property and equipment.....	770,316	719,097
	-----	-----
INVESTMENT IN GOTHIC ENERGY CORPORATION.....	87,509	10,000
	-----	-----
OTHER ASSETS.....	19,388	23,890
	-----	-----
TOTAL ASSETS.....	\$ 980,982	\$ 850,533
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable and current maturities of long-term debt....	\$ 799	\$ 763
Accounts payable.....	23,768	24,822
Accrued liabilities and other.....	43,103	34,713
Revenues and royalties due others.....	33,753	27,888
	-----	-----
Total current liabilities.....	101,423	88,186
	-----	-----
LONG-TERM DEBT, NET.....	983,230	964,097
	-----	-----
REVENUES AND ROYALTIES DUE OTHERS.....	8,405	9,310
	-----	-----
DEFERRED INCOME TAXES.....	7,904	6,484
	-----	-----
STOCKHOLDERS' EQUITY (DEFICIT):		
Preferred Stock, \$.01 par value, 10,000,000 shares authorized; 1,557,037 and 4,596,400 shares of 7% cumulative convertible stock issued and outstanding at June 30, 2000 and December 31, 1999, respectively, entitled in liquidation (including dividends in arrears) to \$87.4 million and \$249.1 million, respectively.....	77,852	229,820
Common Stock, par value of \$.01, 250,000,000 shares authorized; 143,297,346 and 105,858,580 shares issued at June 30, 2000 and December 31, 1999, respectively.....	1,433	1,059
Paid-in capital.....	862,230	682,905
Accumulated earnings (deficit).....	(1,045,984)	(1,093,929)
Accumulated other comprehensive income (loss).....	(2,757)	196
Less: treasury stock, at cost; 3,806,185 and 10,856,185 common shares at June 30, 2000 and December 31, 1999, respectively.....	(12,754)	(37,595)
	-----	-----
Total stockholders' equity (deficit).....	(119,980)	(217,544)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT).....	\$ 980,982	\$ 850,533
	=====	=====

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

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
<b>REVENUES:</b>				
Oil and gas sales.....	\$100,221	\$ 68,272	\$187,514	\$120,078
Oil and gas marketing sales.....	34,242	12,620	61,610	26,491
Total revenues.....	134,463	80,892	249,124	146,569
<b>OPERATING COSTS:</b>				
Production expenses.....	12,581	11,183	25,126	25,175
Production taxes.....	5,717	2,798	10,933	4,788
General and administrative.....	3,188	3,268	6,220	7,292
Oil and gas marketing expenses.....	33,122	11,673	59,666	24,958
Oil and gas depreciation, depletion and amortization.....	24,877	24,233	49,360	47,386
Depreciation and amortization of other assets....	1,836	1,972	3,702	4,138
Total operating costs.....	81,321	55,127	155,007	113,737
INCOME FROM OPERATIONS.....	53,142	25,765	94,117	32,832
<b>OTHER INCOME (EXPENSE):</b>				
Interest and other income.....	1,667	2,967	2,859	3,840
Interest expense.....	(21,813)	(20,259)	(42,677)	(40,149)
Total other income (expense).....	(20,146)	(17,292)	(39,818)	(36,309)
INCOME (LOSS) BEFORE INCOME TAXES.....	32,996	8,473	54,299	(3,477)
INCOME TAX EXPENSE.....	1,362	326	1,463	326
NET INCOME (LOSS).....	31,634	8,147	52,836	(3,803)
Preferred stock dividends.....	(2,907)	(4,026)	(6,949)	(8,052)
Gain on redemption of preferred stock.....	1,481	--	11,895	--
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS.....	\$ 30,208	\$ 4,121	\$ 57,782	\$(11,855)
<b>EARNINGS (LOSS) PER COMMON SHARE:</b>				
Basic.....	\$ 0.26	\$ 0.04	\$ 0.53	\$ (0.12)
Assuming Dilution.....	\$ 0.22	\$ 0.04	\$ 0.36	\$ (0.12)
<b>WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING:</b>				
Basic.....	116,466	97,049	108,196	97,049
Assuming dilution.....	146,113	101,450	146,285	97,049

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 JUNE 30,	
	2000	1999
	(\$ IN THOUSANDS)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss).....	\$ 52,836	\$ (3,803)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization.....	51,258	49,923
Amortization of loan costs.....	1,804	1,601
Amortization of bond discount.....	42	35
(Gain) loss on sale of fixed assets and other.....	(1)	98
Equity in losses (earnings) of equity investees.....	131	(35)
Bad debt expense.....	256	--
Other.....	(36)	--
Deferred income taxes.....	1,463	326
	-----	-----
Cash provided by operating activities before changes in current assets and liabilities.....	107,753	48,145
Changes in current assets and liabilities.....	(23,883)	(579)
	-----	-----
Cash provided by operating activities.....	83,870	47,566
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Exploration and development of oil and gas properties....	(78,947)	(79,303)
Purchases of oil and gas properties.....	(24,981)	(6,484)
Sales of oil and gas properties.....	1,368	17,387
Sales of non-oil and gas assets.....	835	1,306
Additions to other property and equipment.....	(3,390)	(65)
Long-term loans made to third parties.....	--	(511)
Long-term investments.....	(2,000)	--
Investment in Gothic senior discount notes.....	(22,352)	--
Other.....	(1,102)	325
	-----	-----
Cash used in investing activities.....	(130,569)	(67,345)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings.....	113,000	14,000
Payments on long-term borrowings.....	(93,500)	--
Purchase of treasury stock.....	--	(53)
Cash received from exercise of stock options.....	764	240
	-----	-----
Cash provided by financing activities.....	20,264	14,187
	-----	-----
EFFECT OF CHANGES IN EXCHANGE RATE ON CASH.....	(204)	3,625
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS.....	(26,639)	(1,967)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD.....	38,658	29,520
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD.....	\$ 12,019	\$ 27,553
	=====	=====

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 (UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
	-----			
	(\$ IN THOUSANDS)			
Net income (loss).....	\$31,634	\$ 8,147	\$52,836	\$(3,803)
Other comprehensive income (loss) -- foreign currency translation adjustments.....	(2,475)	2,813	(2,953)	3,625
Comprehensive income (loss).....	\$29,159	\$10,960	\$49,883	\$ (178)
	=====	=====	=====	=====

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

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

## 1. ACCOUNTING PRINCIPLES

The accompanying unaudited consolidated financial statements of Chesapeake Energy Corporation and Subsidiaries ("Chesapeake") 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 and six months ended June 30, 2000 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited consolidated financial statements relate to the three and six months ended June 30, 2000 (the "Current Quarter" and "Current Period," respectively) and June 30, 1999 (the "Prior Quarter" and "Prior Period," respectively).

## 2. LEGAL PROCEEDINGS

## Bayard Securities Litigation

This putative class action alleging violations of the Securities Act of 1933 and the Oklahoma Securities Act was first filed in February 1998 against Chesapeake and others on behalf of investors who purchased common stock of Bayard Drilling Technologies, Inc. in, or traceable to, its initial public offering in November 1997. Total proceeds of the offering were \$254 million, of which Chesapeake received net proceeds of \$90 million as a selling shareholder. Plaintiffs allege that Chesapeake, a major customer of Bayard's drilling services and the owner of 30.1% of Bayard's common stock outstanding prior to the offering, was a controlling person of Bayard. Alleged defective disclosures are claimed to have resulted in a decline in Bayard's share price following the public offering. Plaintiffs seek a determination that the suit is a proper class action and damages in an unspecified amount or rescission, together with interest and costs of litigation, including attorneys' fees.

On August 24, 1999, the court dismissed plaintiffs' claims against Chesapeake under Section 15 of the Securities Act of 1933 alleging that Chesapeake was a "controlling person" of Bayard. Claims under Section 11 of the Securities Act of 1933 and Section 408 of the Oklahoma Securities Act continue to be asserted against Chesapeake. Chesapeake believes that it has meritorious defenses to these claims and intends to defend this action vigorously. No estimate of loss or range of estimate of loss, if any, can be made at this time. Bayard, which was acquired by Nabors Industries, Inc. in April 1999, has been reimbursing Chesapeake for its costs of defense as incurred.

## Patent Litigation

On September 21, 1999, judgment was entered in favor of Chesapeake in a patent infringement lawsuit tried to the U.S. District Court for the Northern District of Texas, Fort Worth Division. Filed in October 1996, the lawsuit asserted that Chesapeake had infringed a patent belonging to Union Pacific Resources Company. The court declared the patent invalid, held that Chesapeake could not have infringed the patent, dismissed all of UPRC's claims with prejudice and assessed court costs against UPRC. Appeals of the judgment by both Chesapeake and UPRC are pending in the Federal Circuit Court of Appeals. Chesapeake has appealed the trial court's ruling denying Chesapeake's request for attorneys' fees. Management is unable to predict the outcome of these appeals, but believes the invalidity of the patent will be upheld on appeal.

## West Panhandle Field Cessation Cases

A subsidiary of Chesapeake, Chesapeake Panhandle Limited Partnership ("CP") (f/k/a MC Panhandle, Inc.), and two subsidiaries of Kinder Morgan, Inc. are defendants in 13 lawsuits filed between

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

June 1997 and January 1999 by royalty owners seeking the cancellation of oil and gas leases in the West Panhandle Field in Texas. Chesapeake acquired MC Panhandle, Inc. on April 28, 1998. MC Panhandle, Inc. has owned the leases since January 1, 1997, and the co-defendants are prior lessees. Plaintiffs claim the leases terminated upon the cessation of production for various periods occurring primarily during the 1960s. In addition, plaintiffs seek to recover conversion damages, exemplary damages, attorneys' fees and interest. Defendants assert that any cessation of production was excused and have pled affirmative defenses of limitations, waiver, temporary estoppel, laches and title by adverse possession. Four of the 13 cases have been tried, no trial dates have been set for the other cases.

Of the ten cases filed in the District Court of Moore County, Texas, 69th Judicial District, three have been tried to a jury. Judgment has been entered against CP and its co-defendants in all three cases, although there was initially a jury verdict in two of the cases in favor of defendants. Chesapeake's aggregate liability for these judgments is \$1.3 million of actual damages and \$1.2 million of exemplary damages, and jointly and severally with the other two defendants, \$1.5 million of actual damages and \$337,000 of attorneys' fees in the event of an appeal, sanctions, interest and court costs. The court also quieted title to the leases in dispute in plaintiffs. CP and the other defendants have each appealed the judgments and posted supersedeas bonds in all of these cases. There are three related cases pending in other courts. One was tried in the U.S. District Court, Northern District of Texas, Amarillo Division, and resulted in a jury verdict for CP and its co-defendants. Judgment has not yet been entered in that case.

Chesapeake has previously established an accrued liability that management believes will be sufficient to cover the estimated costs of litigation for each of these cases. Because of the inconsistent verdicts reached by the juries in the four cases tried to date and because the amount of damages sought is not specified in all of the other cases, the outcome of the remaining trials and the amount of damages that might ultimately be awarded could differ from management's estimates. Management believes, however, that the leases are valid, there is no basis for exemplary damages and that any findings of fraud or bad faith will be overturned on appeal. CP and the other defendants intend to vigorously defend against the plaintiffs' claims.

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

### 3. NET INCOME (LOSS) PER SHARE

Statement of Financial Accounting Standards No. 128, Earnings Per Share ("SFAS 128") requires presentation of "basic" and "diluted" earnings per share, as defined, on the face of the statements of operations for all entities with complex capital structures. SFAS 128 requires a reconciliation of the numerator and denominators of the basic and diluted EPS computations.

The following weighted securities were not included in the calculation of diluted earnings per share, as the effect was antidilutive:

- In the Prior Period, options to purchase 12.8 million shares of common stock at a weighted average exercise price of \$1.77 and the assumed conversion of the outstanding preferred stock (convertible into 33.1 million common shares) were antidilutive as a result of Chesapeake's loss for the period.
- For the Prior Quarter, outstanding options to purchase 2.3 million shares of common stock at a weighted average exercise price of \$5.02 were antidilutive because the exercise prices of the options were greater than the average market price of Chesapeake's common stock. Additionally, the

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

assumed conversion of the outstanding preferred stock (convertible into 33.1 million common shares) was not included.

- In the Current Quarter and the Current Period, outstanding options to purchase 0.7 million and 1.6 million shares of common stock, respectively, at a weighted average exercise price of \$10.57 and \$6.76, respectively, were antidilutive because the exercise prices of the options were greater than the average market price of Chesapeake's common stock.

A reconciliation for the Current Quarter, Prior Quarter and Current Period is as follows:

	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
	-----	-----	-----
		(IN THOUSANDS)	
FOR THE QUARTER ENDED JUNE 30, 2000:			
BASIC EPS			
Income available to common stockholders.....	\$ 30,208	116,466	\$0.26 =====
EFFECT OF DILUTIVE SECURITIES			
Assumed conversion of preferred stock at beginning of period.....	2,907	21,797	
Gain on redemption of preferred stock.....	(1,481)	--	
Employee stock options.....	--	7,850	
	-----	-----	
DILUTED EPS			
Income available to common stockholders and assumed conversions.....	\$ 31,634 =====	146,113 =====	\$0.22 =====
FOR THE QUARTER ENDED JUNE 30, 1999:			
BASIC EPS			
Income available to common stockholders.....	\$ 4,121	97,049	\$0.04 =====
EFFECT OF DILUTIVE SECURITIES			
Employee stock options.....	--	4,401	
	-----	-----	
DILUTED EPS			
Income available to common stockholders and assumed conversions.....	\$ 4,121 =====	101,450 =====	\$0.04 =====
FOR THE SIX MONTHS ENDED JUNE 30, 2000:			
BASIC EPS			
Income available to common stockholders.....	\$ 57,782	108,196	\$0.53 =====
EFFECT OF DILUTIVE SECURITIES			
Assumed conversion of preferred stock at beginning of period.....	6,949	31,158	
Gain on redemption of preferred stock.....	(11,895)	--	
Employee stock options.....	--	6,931	
	-----	-----	
DILUTED EPS			
Income available to common stockholders and assumed conversions.....	\$ 52,836 =====	146,285 =====	\$0.36 =====

In the Current Quarter, Chesapeake engaged in a number of unsolicited stock exchange transactions with institutional investors. Chesapeake exchanged a total of 24.7 million shares of common stock (newly issued shares), plus a cash payment of \$8.3 million, for 2,364,363 shares of its issued and outstanding

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

preferred stock with a liquidation value of \$118.2 million plus dividends in arrears of \$13.6 million. All preferred shares acquired in these transactions were cancelled and retired and have the status of authorized but unissued shares of undesignated preferred stock. A gain on redemption of the preferred shares equal to \$1.5 million was recognized as an increase to net income available to common shareholders in the Current Quarter in determining basic earnings per share. The gain represented the excess of (i) the liquidation value of the preferred shares that were retired plus dividends in arrears which had reduced prior EPS over (ii) the market value of the common stock issued, and the cash payment made, in exchange for the preferred shares.

In the Current Period, a total of 34.2 million shares of common stock, plus a cash payment of \$8.3 million, were exchanged for 3,039,363 shares of preferred stock. These transactions reduced (i) the number of preferred shares from 4.6 million to 1.6 million, (ii) the liquidation value of the preferred stock from \$229.8 million to \$77.9 million, and (iii) dividends in arrears by \$16.8 million to \$9.5 million. A gain on redemption of all preferred shares exchanged through June 30, 2000 of \$11.9 million (\$1.5 million related to the Current Quarter) is reflected in net income available to common shareholders in determining basic earnings per share.

Subsequent to June 30, 2000, Chesapeake engaged in additional transactions in which 9.2 million shares of common stock (newly issued shares) were exchanged for 933,000 shares of its issued and outstanding preferred stock with a liquidation value of \$46.7 million plus dividends in arrears of \$6.1 million. A \$5.3 million loss on the redemption of these preferred shares will be reflected in net income available to common shareholders in determining earnings per share in the third quarter.

Chesapeake may acquire additional shares of preferred stock in the future through negotiations with individual holders and, beginning May 1, 2001, it may redeem outstanding shares of preferred stock for \$52.45 per share plus accumulated and unpaid dividends in cash and/or common stock.

#### 4. SENIOR NOTES

##### 9.625% Notes

Chesapeake has outstanding \$500 million in aggregate principal amount of 9.625% Senior Notes which mature May 1, 2005. The 9.625% Notes bear interest at the rate of 9.625%, payable semiannually on each May 1 and November 1. The 9.625% Notes are senior, unsecured obligations of Chesapeake and are fully and unconditionally guaranteed, jointly and severally, by the Guarantor Subsidiaries.

##### 9.125% Notes

Chesapeake has outstanding \$120 million in aggregate principal amount of 9.125% Senior Notes which mature April 15, 2006. The 9.125% Notes bear interest at an annual rate of 9.125%, payable semiannually on each April 15 and October 15. The 9.125% Notes are senior, unsecured obligations of Chesapeake and are fully and unconditionally guaranteed, jointly and severally, by the Guarantor Subsidiaries.

##### 7.875% Notes

Chesapeake has outstanding \$150 million in aggregate principal amount of 7.875% Senior Notes which mature March 15, 2004. The 7.875% Notes bear interest at the rate of 7.875%, payable semiannually on each March 15 and September 15. The 7.875% Notes are senior, unsecured obligations of Chesapeake and are fully and unconditionally guaranteed, jointly and severally, by the Guarantor Subsidiaries.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 8.5% Notes

Chesapeake has outstanding \$150 million in aggregate principal amount of 8.5% Senior Notes which mature March 15, 2012. The 8.5% Notes bear interest at the rate of 8.5%, payable semiannually on each March 15 and September 15. The 8.5% Notes are senior, unsecured obligations of Chesapeake and are fully and unconditionally guaranteed, jointly and severally, by the Guarantor Subsidiaries.

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

The Senior Note Indentures contain certain covenants, including covenants limiting Chesapeake and the Guarantor Subsidiaries with respect to asset sales, restricted payments, the incurrence of additional indebtedness and the issuance of preferred stock, liens, sale and leaseback transactions, lines of business, dividend and other payment restrictions affecting Guarantor Subsidiaries, mergers or consolidations, and transactions with affiliates. Chesapeake is obligated to repurchase the 9.625% and 9.125% Senior Notes in the event of a change of control or certain asset sales.

These senior note indentures also limit Chesapeake's ability to make restricted payments (as defined), including the payment of preferred stock dividends, unless certain tests are met. From December 31, 1998 through March 31, 2000, Chesapeake was unable to meet the requirements to incur additional unsecured indebtedness, and consequently was not able to pay cash dividends on its 7% cumulative convertible preferred stock. Chesapeake had accumulated dividends in arrears of \$9.5 million related to its preferred stock as of June 30, 2000. This restriction does not affect Chesapeake's ability to borrow under or expand its secured commercial bank facility. Chesapeake was unable to pay a dividend on the preferred stock on May 1, 2000, the sixth consecutive dividend payment date on which dividends had not been paid. As a result of Chesapeake's failure to pay dividends for six quarterly periods, the holders of preferred stock are entitled to elect two new directors to the Board. Based on the Current Quarter financial results, Chesapeake was able to pay a dividend on the preferred stock on August 1, 2000, although the Board of Directors did not declare a dividend that would have been payable on that date.

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

Chesapeake Energy Marketing, Inc. ("CEMI") was the only Non-Guarantor Subsidiary for all periods presented. All of Chesapeake's other subsidiaries were Guarantor Subsidiaries during all periods presented.

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET  
AS OF JUNE 30, 2000  
(\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	PARENT	ELIMINATIONS	CONSOLIDATED
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents.....	\$ (9,048)	\$ 5,057	\$ 20,764	\$ --	\$ 16,773
Accounts receivable, net.....	68,523	29,041	--	(17,189)	80,375
Inventory.....	3,375	221	--	--	3,596
Other.....	2,456	28	541	--	3,025
Total current assets.....	65,306	34,347	21,305	(17,189)	103,769
<b>PROPERTY AND EQUIPMENT:</b>					
Oil and gas properties.....	2,422,373	--	--	--	2,422,373
Unevaluated leasehold.....	32,146	--	--	--	32,146
Other property and equipment.....	29,899	20,568	19,688	--	70,155
Less: accumulated depreciation, depletion and amortization.....	(1,734,280)	(17,974)	(2,104)	--	(1,754,358)
Net property and equipment.....	750,138	2,594	17,584	--	770,316
<b>INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES.....</b>					
	922,163	--	432,912	(1,355,075)	--
<b>INVESTMENT IN GOTHIC ENERGY CORPORATION.....</b>					
	10,000	--	77,509	--	87,509
<b>OTHER ASSETS.....</b>					
	1,438	8,496	17,266	(7,812)	19,388
<b>TOTAL ASSETS.....</b>	<b>\$ 1,749,045</b>	<b>\$ 45,437</b>	<b>\$ 566,576</b>	<b>\$(1,380,076)</b>	<b>\$ 980,982</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>					
<b>CURRENT LIABILITIES:</b>					
Notes payable and current maturities of long-term debt....	\$ 799	\$ --	\$ --	\$ --	\$ 799
Accounts payable and other.....	61,540	30,312	26,087	(17,315)	100,624
Total current liabilities.....	62,339	30,312	26,087	(17,315)	101,423
<b>LONG-TERM DEBT, NET.....</b>					
	64,028	--	919,202	--	983,230
<b>REVENUES AND ROYALTIES DUE OTHERS...</b>					
	8,405	--	--	--	8,405
<b>DEFERRED INCOME TAXES.....</b>					
	7,904	--	--	--	7,904
<b>INTERCOMPANY PAYABLES.....</b>					
	1,473,601	(1,531)	(1,472,070)	--	--
<b>STOCKHOLDERS' EQUITY (DEFICIT):</b>					
Common stock.....	26	1	1,424	(18)	1,433
Other.....	132,742	16,655	1,091,933	(1,362,743)	(121,413)
	132,768	16,656	1,093,357	(1,362,761)	(119,980)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT).....</b>	<b>\$ 1,749,045</b>	<b>\$ 45,437</b>	<b>\$ 566,576</b>	<b>\$(1,380,076)</b>	<b>\$ 980,982</b>



## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET  
AS OF DECEMBER 31, 1999  
(\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	PARENT	ELIMINATIONS	CONSOLIDATED
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents.....	\$ (6,964)	\$ 20,409	\$ 25,405	\$ --	\$ 38,850
Accounts receivable.....	45,170	18,297	73	(12,475)	51,065
Inventory.....	4,183	399	--	--	4,582
Other.....	1,997	700	352	--	3,049
Total current assets.....	44,386	39,805	25,830	(12,475)	97,546
PROPERTY AND EQUIPMENT:					
Oil and gas properties.....	2,311,633	3,715	--	--	2,315,348
Unevaluated leasehold.....	40,008	--	--	--	40,008
Other property and equipment.....	29,088	20,521	18,103	--	67,712
Less: accumulated depreciation, depletion and amortization.....	(1,683,890)	(18,205)	(1,876)	--	(1,703,971)
Net property and equipment.....	696,839	6,031	16,227	--	719,097
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES.....					
	806,180	--	493,738	(1,299,918)	--
INVESTMENT IN GOTHIC ENERGY CORPORATION.....					
	10,000	--	--	--	10,000
OTHER ASSETS.....	6,402	8,409	16,765	(7,686)	23,890
TOTAL ASSETS.....	\$ 1,563,807	\$ 54,245	\$ 552,560	\$ (1,320,079)	\$ 850,533
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt....	\$ --	\$ 763	\$ --	\$ --	\$ 763
Accounts payable and other.....	63,194	19,265	17,466	(12,502)	87,423
Total current liabilities.....	63,194	20,028	17,466	(12,502)	88,186
LONG-TERM DEBT, NET.....	43,500	1,437	919,160	--	964,097
REVENUES AND ROYALTIES DUE OTHERS...	9,310	--	--	--	9,310
DEFERRED INCOME TAXES.....	6,484	--	--	--	6,484
INTERCOMPANY PAYABLES.....	1,356,466	(2,450)	(1,354,043)	27	--
STOCKHOLDERS' EQUITY (DEFICIT):					
Common stock.....	27	1	1,048	(17)	1,059
Other.....	84,826	35,229	968,929	(1,307,587)	(218,603)
	84,853	35,230	969,977	(1,307,604)	(217,544)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT).....	\$ 1,563,807	\$ 54,245	\$ 552,560	\$ (1,320,079)	\$ 850,533

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS  
(\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARY	PARENT	ELIMINATIONS	CONSOLIDATED
FOR THE THREE MONTHS ENDED JUNE 30, 2000					
REVENUES:					
Oil and gas sales.....	\$100,221	\$ --	\$ --	\$ --	\$100,221
Oil and gas marketing sales.....	--	79,973	--	(45,731)	34,242
Total revenues.....	100,221	79,973	--	(45,731)	134,463
OPERATING COSTS:					
Production expenses and taxes.....	18,298	--	--	--	18,298
General and administrative.....	2,841	299	48	--	3,188
Oil and gas marketing expenses.....	--	78,853	--	(45,731)	33,122
Oil and gas depreciation, depletion and amortization.....	24,876	1	--	--	24,877
Other depreciation and amortization.....	1,008	20	808	--	1,836
Total operating costs.....	47,023	79,173	856	(45,731)	81,321
INCOME (LOSS) FROM OPERATIONS.....	53,198	800	(856)	--	53,142
OTHER INCOME (EXPENSE):					
Interest and other income.....	1,165	467	20,945	(20,910)	1,667
Interest expense.....	(21,484)	--	(21,239)	20,910	(21,813)
	(20,319)	467	(294)	--	(20,146)
INCOME (LOSS) BEFORE INCOME TAXES.....					
	32,879	1,267	(1,150)	--	32,996
INCOME TAX EXPENSE.....	1,362	--	--	--	1,362
NET INCOME (LOSS).....	\$ 31,517	\$ 1,267	\$ (1,150)	\$ --	\$ 31,634
FOR THE THREE MONTHS ENDED JUNE 30, 1999					
REVENUES:					
Oil and gas sales.....	\$ 68,272	\$ --	\$ --	\$ --	\$ 68,272
Oil and gas marketing sales.....	--	38,420	--	(25,800)	12,620
Total revenues.....	68,272	38,420	--	(25,800)	80,892
OPERATING COSTS:					
Production expenses and taxes.....	13,981	--	--	--	13,981
General and administrative.....	2,942	324	2	--	3,268
Oil and gas marketing expenses.....	--	37,473	--	(25,800)	11,673
Oil and gas depreciation, depletion and amortization.....	24,233	--	--	--	24,233
Other depreciation and amortization.....	1,138	20	814	--	1,972
Total operating costs.....	42,294	37,817	816	(25,800)	55,127
INCOME (LOSS) FROM OPERATIONS.....	25,978	603	(816)	--	25,765
OTHER INCOME (EXPENSE):					
Interest and other income.....	440	2,408	29,188	(29,069)	2,967
Interest expense.....	(29,009)	--	(20,319)	29,069	(20,259)
	(28,569)	2,408	8,869	--	(17,292)
INCOME (LOSS) BEFORE INCOME TAXES.....					
	(2,591)	3,011	8,053	--	8,473
INCOME TAX EXPENSE.....	326	--	--	--	326
NET INCOME (LOSS).....	\$ (2,917)	\$ 3,011	\$ 8,053	\$ --	\$ 8,147

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS  
(\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARY	PARENT	ELIMINATIONS	CONSOLIDATED
FOR THE SIX MONTHS ENDED JUNE 30, 2000					
REVENUES:					
Oil and gas sales.....	\$187,167	\$ 347	\$ --	\$ --	\$187,514
Oil and gas marketing sales.....	--	149,098	--	(87,488)	61,610
Total revenues.....	187,167	149,445	--	(87,488)	249,124
OPERATING COSTS:					
Production expenses and taxes.....	35,979	80	--	--	36,059
General and administrative.....	5,561	590	69	--	6,220
Oil and gas marketing expenses.....	--	147,154	--	(87,488)	59,666
Oil and gas depreciation, depletion and amortization.....	49,259	101	--	--	49,360
Other depreciation and amortization....	2,034	40	1,628	--	3,702
Total operating costs.....	92,833	147,965	1,697	(87,488)	155,007
INCOME (LOSS) FROM OPERATIONS.....	94,334	1,480	(1,697)	--	94,117
OTHER INCOME (EXPENSE):					
Interest and other income.....	1,963	803	41,912	(41,819)	2,859
Interest expense.....	(42,439)	(34)	(42,023)	41,819	(42,677)
	(40,476)	769	(111)	--	(39,818)
INCOME (LOSS) BEFORE INCOME TAXES.....					
	53,858	2,249	(1,808)	--	54,299
INCOME TAX EXPENSE.....	1,463	--	--	--	1,463
NET INCOME (LOSS).....	\$ 52,395	\$ 2,249	\$ (1,808)	\$ --	\$ 52,836
FOR THE SIX MONTHS ENDED JUNE 30, 1999					
REVENUES:					
Oil and gas sales.....	\$120,078	\$ --	\$ --	\$ --	\$120,078
Oil and gas marketing sales.....	--	73,258	--	(46,767)	26,491
Total revenues.....	120,078	73,258	--	(46,767)	146,569
OPERATING COSTS:					
Production expenses and taxes.....	29,963	--	--	--	29,963
General and administrative.....	6,464	781	47	--	7,292
Oil and gas marketing expenses.....	--	71,725	--	(46,767)	24,958
Oil and gas depreciation, depletion and amortization.....	47,386	--	--	--	47,386
Other depreciation and amortization....	2,476	40	1,622	--	4,138
Total operating costs.....	86,289	72,546	1,669	(46,767)	113,737
INCOME (LOSS) FROM OPERATIONS.....	33,789	712	(1,669)	--	32,832
OTHER INCOME (EXPENSE):					
Interest and other income.....	707	2,845	58,328	(58,040)	3,840
Interest expense.....	(57,415)	--	(40,774)	58,040	(40,149)
	(56,708)	2,845	17,554	--	(36,309)
INCOME (LOSS) BEFORE INCOME TAXES.....					
	(22,919)	3,557	15,885	--	(3,477)
INCOME TAX EXPENSE.....	326	--	--	--	326
NET INCOME (LOSS).....	\$(23,245)	\$ 3,557	\$ 15,885	\$ --	\$ (3,803)

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARY	PARENT	ELIMINATIONS	CONSOLIDATED
FOR THE SIX MONTHS ENDED JUNE 30, 2000					
CASH FLOWS FROM OPERATING ACTIVITIES.....	\$ 88,395	\$ (4,753)	\$ 228	\$ --	\$ 83,870
CASH FLOWS FROM INVESTING ACTIVITIES:					
Oil and gas properties.....	(104,075)	1,515	--	--	(102,560)
Proceeds from sale of assets.....	835	--	--	--	835
Investment in Gothic senior discount notes.....	--	(22,352)	--	--	(22,352)
Other investments.....	--	--	(2,000)	--	(2,000)
Other additions.....	(2,570)	(46)	(1,876)	--	(4,492)
	(105,810)	(20,883)	(3,876)	--	(130,569)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from borrowings.....	113,000	--	--	--	113,000
Payments on borrowings.....	(93,500)	--	--	--	(93,500)
Cash received from exercise of stock options.....	--	--	764	--	764
Intercompany advances, net.....	(8,527)	10,284	(1,757)	--	--
	10,973	10,284	(993)	--	20,264
EFFECT OF EXCHANGE RATE CHANGES ON CASH....	(204)	--	--	--	(204)
Net increase (decrease) in cash.....	(6,646)	(15,352)	(4,641)	--	(26,639)
Cash, beginning of period.....	(7,156)	20,409	25,405	--	38,658
Cash, end of period.....	\$ (13,802)	\$ 5,057	\$ 20,764	\$ --	\$ 12,019
=====					
FOR THE SIX MONTHS ENDED JUNE 30, 1999					
CASH FLOWS FROM OPERATING ACTIVITIES.....	\$ 22,128	\$ 8,119	\$ 17,319	\$ --	\$ 47,566
CASH FLOWS FROM INVESTING ACTIVITIES:					
Oil and gas properties.....	(68,400)	--	--	--	(68,400)
Proceeds from sale of other assets.....	1,306	--	--	--	1,306
Other additions.....	427	308	(986)	--	(251)
	(66,667)	308	(986)	--	(67,345)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from borrowings.....	14,000	--	--	--	14,000
Cash paid for purchase of treasury stock.....	--	(53)	--	--	(53)
Cash received from exercise of stock options.....	--	--	240	--	240
Intercompany advances, net.....	33,665	2,217	(35,882)	--	--
	47,665	2,164	(35,642)	--	14,187
EFFECT OF EXCHANGE RATE CHANGES ON CASH....	3,625	--	--	--	3,625
Net increase (decrease) in cash.....	6,751	10,591	(19,309)	--	(1,967)
Cash, beginning of period.....	(17,319)	7,000	39,839	--	29,520
Cash, end of period.....	\$ (10,568)	\$ 17,591	\$ 20,530	\$ --	\$ 27,553
=====					

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	PARENT	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----	-----
FOR THE THREE MONTHS ENDED JUNE 30, 2000:					
Net income (loss).....	\$ 31,517	\$1,267	\$(1,150)	\$ --	\$31,634
Other comprehensive income (loss) -- foreign currency translation.....	(2,475)	--	--	--	(2,475)
	-----	-----	-----	-----	-----
Comprehensive income.....	\$ 29,042	\$1,267	\$(1,150)	\$ --	\$29,159
	=====	=====	=====	=====	=====
FOR THE THREE MONTHS ENDED JUNE 30, 1999:					
Net income (loss).....	\$ (2,917)	\$3,011	\$ 8,053	\$ --	\$ 8,147
Other comprehensive income (loss) -- foreign currency translation.....	2,813	--	--	--	2,813
	-----	-----	-----	-----	-----
Comprehensive income (loss).....	\$ (104)	\$3,011	\$ 8,053	\$ --	\$10,960
	=====	=====	=====	=====	=====
FOR THE SIX MONTHS ENDED JUNE 30, 2000:					
Net income (loss).....	\$ 52,395	\$2,249	\$(1,808)	\$ --	\$52,836
Other comprehensive income (loss) -- foreign currency translation.....	(2,953)	--	--	--	(2,953)
	-----	-----	-----	-----	-----
Comprehensive income.....	\$ 49,442	\$2,249	\$(1,808)	\$ --	\$49,883
	=====	=====	=====	=====	=====
FOR THE SIX MONTHS ENDED JUNE 30, 1999:					
Net income (loss).....	\$(23,245)	\$3,557	\$15,885	\$ --	\$(3,803)
Other comprehensive income (loss) -- foreign currency translation.....	3,625	--	--	--	3,625
	-----	-----	-----	-----	-----
Comprehensive income (loss).....	\$(19,620)	\$3,557	\$15,885	\$ --	\$ (178)
	=====	=====	=====	=====	=====

## 5. INVESTMENT IN GOTHIC ENERGY CORPORATION ("GOTHIC")

On June 27, 2000, CEMI purchased in a series of private transactions 96% of Gothic's \$104 million of 14.125% Series B Senior Secured Discount Notes for consideration of \$77.5 million, comprised of \$22.4 million in cash and \$55.2 million of Chesapeake common stock (9,468,985 shares valued at \$5.825 per share), subject to adjustment. The acquired discount notes accrete at a rate per annum of 14.125%, compounded semi-annually to an aggregate principal amount of \$99.7 million at May 1, 2002. Thereafter, the discount notes accrue interest at the rate of 14.125% per annum, payable in cash semi-annually in arrears on May 1 and November 1 of each year commencing November 1, 2002. The discount notes mature on May 1, 2006.

On June 30, 2000, Chesapeake entered into a letter of intent to acquire the common stock of Gothic for 4.0 million shares of Chesapeake common stock. Upon the closing of the transaction, Gothic's shareholders will own approximately 2.7% of Chesapeake's common stock. The total acquisition cost to Chesapeake will be approximately \$345 million, including \$235 million of Senior Secured Notes issued by Gothic's operating subsidiary. The Gothic acquisition is subject to the completion of definitive documentation and approval by Gothic's shareholders. Completion of the transaction is expected by year-end 2000.

Also included in Chesapeake's investment in Gothic is Chesapeake's April 1998 investment in Gothic's 12% Preferred Stock with a carrying value of \$10.0 million.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 6. REVOLVING CREDIT FACILITY

At June 30, 2000, Chesapeake had a \$75 million revolving bank credit facility, maturing in July 2002, with a committed borrowing base of \$75 million. As of June 30, 2000, Chesapeake had borrowed \$63.0 million under this facility. Borrowings under the facility are secured by certain producing oil and gas properties and bear interest at variable rates, which averaged 10.0% per annum as of June 30, 2000. On August 1, 2000, the revolving bank credit facility and the borrowing base were increased to \$100 million.

## 7. RECENTLY ISSUED ACCOUNTING STANDARDS

On June 15, 1998, the Financial Accounting Standards Board issued FAS No. 133, Accounting for Derivative Instruments and Hedging Activities. FAS 133 establishes a new model for accounting for derivatives and hedging activities and supersedes and amends a number of existing standards. FAS 133 (as amended by FAS 137 and FAS 138) is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

FAS 133 standardizes the accounting for derivative instruments by requiring that all derivatives be recognized as assets and liabilities and measured at fair value. The accounting for changes in the fair value of derivatives (gains and losses) depends on (i) whether the derivative is designated and qualifies as a hedge, and (ii) the type of hedging relationship that exists. Changes in the fair value of derivatives that are not designated as hedges or that do not meet the hedge accounting criteria in FAS 133 are required to be reported in earnings. In addition, all hedging relationships must be designated, reassessed and documented pursuant to the provisions of FAS 133. Chesapeake has not yet determined the impact that adoption of FAS 133 will have on the financial statements. However, Chesapeake believes that its commodity derivatives will be designated as hedges in accordance with the relevant accounting criteria.

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders  
of Chesapeake Energy Corporation

In our opinion, the consolidated financial statements as of December 31, 1999 and 1998, for the years ended December 31, 1999 and 1998 and June 30, 1997 and the six months ended December 31, 1997 present fairly, in all material respects, the financial position of Chesapeake Energy Corporation and its subsidiaries ("Chesapeake") at December 31, 1999 and 1998, and the results of their operations and their cash flows for the years ended December 31, 1999 and 1998, the six months ended December 31, 1997, and the year ended June 30, 1997, in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of Chesapeake's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICEWATERHOUSECOOPERS LLP

Oklahoma City, Oklahoma  
March 24, 2000

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1999	1998
	(\$ IN THOUSANDS)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 38,658	\$ 29,520
Restricted cash.....	192	5,754
Accounts receivable:		
Oil and gas sales.....	17,045	13,835
Oil and gas marketing sales.....	18,199	19,636
Joint interest and other, net of allowances of \$3,218,000 and \$3,209,000, respectively.....	11,247	27,373
Related parties.....	4,574	15,455
Inventory.....	4,582	5,325
Other.....	3,049	1,101
	-----	-----
Total Current Assets.....	97,546	117,999
	-----	-----
PROPERTY AND EQUIPMENT:		
Oil and gas properties, at cost based on full-cost accounting:		
Evaluated oil and gas properties.....	2,315,348	2,142,943
Unevaluated properties.....	40,008	52,687
Less: accumulated depreciation, depletion and amortization.....	(1,670,542)	(1,574,282)
	-----	-----
684,814	621,348	
Other property and equipment.....	67,712	79,718
Less: accumulated depreciation and amortization.....	(33,429)	(37,075)
	-----	-----
Total Property and Equipment.....	719,097	663,991
	-----	-----
OTHER ASSETS.....	33,890	30,625
	-----	-----
TOTAL ASSETS.....	\$ 850,533	\$ 812,615
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable and current maturities of long-term debt....	\$ 763	\$ 25,000
Accounts payable.....	24,822	36,854
Accrued liabilities and other.....	34,713	46,572
Revenues and royalties due others.....	27,888	22,858
	-----	-----
Total Current Liabilities.....	88,186	131,284
	-----	-----
LONG-TERM DEBT, NET.....	964,097	919,076
	-----	-----
REVENUES AND ROYALTIES DUE OTHERS.....	9,310	10,823
	-----	-----
DEFERRED INCOME TAXES.....	6,484	--
	-----	-----
CONTINGENCIES AND COMMITMENTS (NOTE 4)		
STOCKHOLDERS' EQUITY (DEFICIT):		
Preferred Stock, \$.01 par value, 10,000,000 shares authorized; 4,596,400 and 4,600,000 shares of 7% cumulative convertible stock issued and outstanding at December 31, 1999 and 1998, respectively, entitled in liquidation to \$229.8 million and 230.0 million, respectively.....	229,820	230,000
Common Stock, par value of \$.01, 250,000,000 shares authorized; 105,858,580 and 105,213,750 shares issued at December 31, 1999 and 1998, respectively.....	1,059	1,052
Paid-in capital.....	682,905	682,263
Accumulated earnings (deficit).....	(1,093,929)	(1,127,195)
Accumulated other comprehensive income (loss).....	196	(4,726)
Less: treasury stock, at cost; 10,856,185 and 8,503,300 common shares at December 31, 1999 and 1998, respectively.....	(37,595)	(29,962)
	-----	-----
Total Stockholders' Equity (Deficit).....	(217,544)	(248,568)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT).....	\$ 850,533	\$ 812,615
	=====	=====

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



## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,		SIX MONTHS ENDED	YEAR ENDED
	1999	1998	DECEMBER 31, 1997	JUNE 30, 1997
	(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)			
REVENUES:				
Oil and gas sales.....	\$280,445	\$ 256,887	\$ 95,657	\$ 192,920
Oil and gas marketing sales.....	74,501	121,059	58,241	76,172
Total revenues.....	354,946	377,946	153,898	269,092
OPERATING COSTS:				
Production expenses.....	46,298	51,202	7,560	11,445
Production taxes.....	13,264	8,295	2,534	3,662
General and administrative.....	13,477	19,918	5,847	8,802
Oil and gas marketing expenses.....	71,533	119,008	58,227	75,140
Oil and gas depreciation, depletion and amortization...	95,044	146,644	60,408	103,264
Depreciation and amortization of other assets.....	7,810	8,076	2,414	3,782
Impairment of oil and gas properties.....	--	826,000	110,000	236,000
Impairment of other assets.....	--	55,000	--	--
Total operating costs.....	247,426	1,234,143	246,990	442,095
INCOME (LOSS) FROM OPERATIONS.....	107,520	(856,197)	(93,092)	(173,003)
OTHER INCOME (EXPENSE):				
Interest and other income.....	8,562	3,926	78,966	11,223
Interest expense.....	(81,052)	(68,249)	(17,448)	(18,550)
Total other income (expense).....	(72,490)	(64,323)	61,518	(7,327)
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM.....	35,030	(920,520)	(31,574)	(180,330)
PROVISION (BENEFIT) FOR INCOME TAXES.....	1,764	--	--	(3,573)
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM.....	33,266	(920,520)	(31,574)	(176,757)
EXTRAORDINARY ITEM:				
Loss on early extinguishment of debt, net of applicable income tax of \$0 and \$3,804,000, respectively.....	--	(13,334)	--	(6,620)
NET INCOME (LOSS).....	33,266	(933,854)	(31,574)	(183,377)
PREFERRED STOCK DIVIDENDS.....	(16,711)	(12,077)	--	--
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS.....	\$ 16,555	\$ (945,931)	\$ (31,574)	\$ (183,377)
EARNINGS (LOSS) PER COMMON SHARE:				
EARNINGS (LOSS) PER COMMON SHARE -- BASIC:				
Income (loss) before extraordinary item.....	\$ 0.17	\$ (9.83)	\$ (0.45)	\$ (2.69)
Extraordinary item.....	--	(0.14)	--	(0.10)
Net income (loss).....	\$ 0.17	\$ (9.97)	\$ (0.45)	\$ (2.79)
EARNINGS (LOSS) PER COMMON SHARE -- ASSUMING DILUTION:				
Income (loss) before extraordinary item.....	\$ 0.16	\$ (9.83)	\$ (0.45)	\$ (2.69)
Extraordinary item.....	--	(0.14)	--	(0.10)
Net income (loss).....	\$ 0.16	\$ (9.97)	\$ (0.45)	\$ (2.79)
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (IN 000'S):				
Basic.....	97,077	94,911	70,835	65,767
Assuming dilution.....	102,038	94,911	70,835	65,767

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

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED		SIX MONTHS ENDED	YEAR ENDED
	DECEMBER 31,	DECEMBER 31,		
	1999	1998	1997	1997
	(\$ IN THOUSANDS)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
NET INCOME (LOSS).....	\$ 33,266	\$(933,854)	\$ (31,574)	\$(183,377)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:				
Depreciation, depletion and amortization.....	99,516	152,204	62,028	105,591
Impairment of oil and gas assets.....	--	826,000	110,000	236,000
Impairment of other assets.....	--	55,000	--	--
Deferred taxes.....	1,764	--	--	(3,573)
Amortization of loan costs.....	3,338	2,516	794	1,455
Amortization of bond discount.....	84	98	41	217
Bad debt expense.....	9	1,589	40	299
Gain on sale of Bayard stock.....	--	--	(73,840)	--
Gain on sale of fixed assets.....	(459)	(90)	(209)	(1,593)
Extraordinary loss.....	--	13,334	--	6,620
Equity in (earnings) losses from investments and other....	1,209	703	592	(499)
	-----	-----	-----	-----
Cash provided by operating activities before changes in current assets and liabilities.....	138,727	117,500	67,872	161,140
	-----	-----	-----	-----
<b>CHANGES IN ASSETS AND LIABILITIES:</b>				
(Increase) decrease in short-term investments.....	--	12,027	92,127	(102,858)
(Increase) decrease in accounts receivable.....	17,592	12,191	(7,173)	(19,987)
(Increase) decrease in inventory.....	743	168	(1,584)	(1,467)
(Increase) decrease in other current assets.....	3,614	7,637	(1,519)	1,466
Increase (decrease) in accounts payable, accrued liabilities and other.....	(23,891)	(46,785)	(11,044)	48,085
Increase (decrease) in current and non-current revenues and royalties due others.....	3,517	(8,099)	478	(2,290)
Increase (decrease) in deferred income taxes.....	4,720	--	--	--
	-----	-----	-----	-----
Changes in assets and liabilities.....	6,295	(22,861)	71,285	(77,051)
	-----	-----	-----	-----
Cash provided by operating activities.....	145,022	94,639	139,157	84,089
	-----	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Exploration and development of oil and gas properties....	(153,268)	(259,710)	(187,252)	(465,367)
Acquisitions of oil and gas companies and properties, net of cash acquired.....	(49,893)	(279,924)	--	--
Divestitures of oil and gas properties.....	45,635	15,712	--	--
Investment in preferred stock of Gothic Energy Corporation.....	--	(39,500)	--	--
Net proceeds from sale of Bayard stock.....	--	--	90,380	--
Repayment of note receivable.....	--	2,000	18,000	--
Proceeds from sale of investment in PanEast.....	--	21,245	--	--
Other proceeds from sales.....	5,530	3,600	17	6,428
Long-term loans made to third parties.....	--	--	--	(20,000)
Investment in oil field service company.....	--	--	(200)	(3,048)
Increase in deferred charges.....	(5,865)	--	--	--
Other investments.....	(730)	--	(30,434)	(8,000)
Other property and equipment additions.....	(1,182)	(11,473)	(27,015)	(33,867)
	-----	-----	-----	-----
Cash used in investing activities.....	(159,773)	(548,050)	(136,504)	(523,854)
	-----	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds from issuance of common stock.....	--	--	--	288,091
Proceeds from long-term borrowings.....	116,500	658,750	--	342,626
Payments on long-term borrowings.....	(98,000)	(474,166)	--	(119,581)
Dividends paid on common stock.....	--	(5,592)	(2,810)	--
Dividends paid on preferred stock.....	--	(8,050)	--	--
Proceeds from issuance of preferred stock.....	--	222,663	--	--
Purchase of treasury stock and preferred stock.....	(53)	(29,962)	--	--
Cash received from exercise of stock options.....	520	154	322	1,387
Other financing.....	--	--	(322)	(379)
	-----	-----	-----	-----
Cash provided by (used in) financing activities.....	18,967	363,797	(2,810)	512,144
	-----	-----	-----	-----
EFFECT OF EXCHANGE RATE CHANGES ON CASH.....	4,922	(4,726)	--	--
	-----	-----	-----	-----
Net increase (decrease) in cash and cash equivalents.....	9,138	(94,340)	(157)	72,379
Cash and cash equivalents, beginning of period.....	29,520	123,860	124,017	51,638
	-----	-----	-----	-----
Cash and cash equivalents, end of period.....	\$ 38,658	\$ 29,520	\$ 123,860	\$ 124,017
	=====	=====	=====	=====

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

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

	YEARS ENDED DECEMBER 31,		SIX MONTHS ENDED DECEMBER 31,	YEAR ENDED JUNE 30,
	1999	1998	1997	1997
(\$ IN THOUSANDS)				
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>				
<b>CASH PAYMENTS FOR:</b>				
Interest, net of capitalized interest.....	\$80,684	\$ 59,881	\$ 17,367	\$12,919
Income taxes.....	\$ --	\$ --	\$ 500	\$ --
<b>DETAILS OF ACQUISITION OF ANSON PRODUCTION CORPORATION:</b>				
Fair value of assets acquired.....	\$ --	\$ --	\$ 43,000	\$ --
Accrued liability for estimated cash consideration.....	\$ --	\$ --	\$(15,500)	\$ --
Stock issued (3,792,724 shares).....	\$ --	\$ --	\$(27,500)	\$ --
<b>DETAILS OF ACQUISITION OF DLB OIL &amp; GAS, INC.:</b>				
Fair value of assets acquired.....	\$ --	\$ 136,500	\$ --	\$ --
Cash consideration.....	\$ --	\$ (17,500)	\$ --	\$ --
Stock issued (5,000,000 shares).....	\$ --	\$ (30,000)	\$ --	\$ --
Debt assumed.....	\$ --	\$ (85,000)	\$ --	\$ --
Acquisition costs paid.....	\$ --	\$ (4,000)	\$ --	\$ --
<b>DETAILS OF ACQUISITION OF HUGOTON ENERGY CORPORATION:</b>				
Fair value of assets acquired.....	\$ --	\$ 343,371	\$ --	\$ --
Stock options granted.....	\$ --	\$ (2,050)	\$ --	\$ --
Stock issued (25,790,146 shares).....	\$ --	\$(206,321)	\$ --	\$ --
Debt assumed.....	\$ --	\$(120,000)	\$ --	\$ --
Acquisition costs paid.....	\$ --	\$ (15,000)	\$ --	\$ --

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

**SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:**

In November 1999, the Chief Executive Officer and Chief Operating Officer of Chesapeake tendered to Chesapeake Energy Marketing, Inc. ("CEMI") 2,320,107 shares of Chesapeake common stock in full satisfaction of two notes payable to CEMI with a combined outstanding balance of \$7.6 million.

During 1999, Chesapeake issued a \$2.2 million note payable as consideration for the acquisition of certain oil and gas properties.

Chesapeake had a financing arrangement with a vendor to supply certain oil and gas equipment inventory, which was terminated during the Transition Period. The total amount owed at June 30, 1997 was \$1,380,000. No cash consideration is exchanged for inventory under this financing arrangement until actual draws on the inventory are made.

In fiscal 1997, Chesapeake recognized income tax benefits of \$4,808,000 related to the disposition of stock options by directors and employees of Chesapeake. The tax benefits were recorded as an adjustment to deferred income taxes and paid-in capital.

Proceeds from the issuance of \$500 million of 9.625% senior notes in April 1998 and \$300 million of senior notes (\$150 million of 7.875% senior notes and \$150 million of 8.5% senior notes) in March 1997, are net of \$11.7 million and \$6.4 million, respectively, in offering fees and expenses which were deducted from the actual cash received.

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

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND  
COMPREHENSIVE INCOME (LOSS)

	YEARS ENDED DECEMBER 31,		SIX MONTHS ENDED	YEAR ENDED
	1999	1998	DECEMBER 31, 1997	JUNE 30, 1997
	----- (\$ IN THOUSANDS) -----			
<b>PREFERRED STOCK:</b>				
Balance, beginning of period.....	\$ 230,000	\$ --	\$ --	\$ --
Purchase of preferred stock.....	(180)	--	--	--
Issuance of preferred stock.....	--	230,000	--	--
	-----	-----	-----	-----
Balance, end of period.....	229,820	230,000	--	--
	-----	-----	-----	-----
<b>COMMON STOCK:</b>				
Balance, beginning of period.....	1,052	743	703	3,008
Issuance of 8,972,000 shares of common stock.....	--	--	--	90
Exercise of stock options and warrants.....	6	--	2	12
Issuance of 3,792,724 shares of common stock to AnSon Production Corporation.....	--	--	38	--
Issuance of 25,790,146 shares of common stock to Hugoton Energy Corporation.....	--	258	--	--
Issuance of 5,000,000 shares of common stock to DLB Oil and Gas, Inc. ....	--	50	--	--
Change in par value and other.....	1	1	--	(2,407)
	-----	-----	-----	-----
Balance, end of period.....	1,059	1,052	743	703
	-----	-----	-----	-----
<b>PAID-IN CAPITAL:</b>				
Balance, beginning of period.....	682,263	460,770	432,991	136,782
Exercise of stock options and warrants.....	514	153	320	1,375
Issuance of common stock.....	--	236,013	27,459	301,593
Offering expenses and other.....	1	(16,723)	--	(13,974)
Stock options issued in Hugoton purchase.....	--	2,050	--	--
Purchase of preferred stock at discount.....	127	--	--	--
Tax benefit from exercise of stock options...	--	--	--	4,808
Change in par value.....	--	--	--	2,407
	-----	-----	-----	-----
Balance, end of period.....	682,905	682,263	460,770	432,991
	-----	-----	-----	-----
<b>ACCUMULATED EARNINGS (DEFICIT):</b>				
Balance, beginning of period.....	(1,127,195)	(181,270)	(146,805)	37,977
Net income (loss).....	33,266	(933,854)	(31,574)	(183,377)
Dividends on common stock.....	--	(4,021)	(2,891)	(1,405)
Dividends on preferred stock.....	--	(8,050)	--	--
	-----	-----	-----	-----
Balance, end of period.....	(1,093,929)	(1,127,195)	(181,270)	(146,805)
	-----	-----	-----	-----
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):</b>				
Balance, beginning of period.....	(4,726)	(37)	--	--
Foreign currency translation adjustments.....	4,922	(4,689)	(37)	--
	-----	-----	-----	-----
Balance, end of period.....	196	(4,726)	(37)	--
	-----	-----	-----	-----
<b>TREASURY STOCK -- COMMON:</b>				
Balance, beginning of period.....	(29,962)	--	--	--
Exchange of notes receivable for common stock from related parties.....	(7,633)	(29,962)	--	--
	-----	-----	-----	-----
Balance, end of period.....	(37,595)	(29,962)	--	--
	-----	-----	-----	-----
<b>TOTAL STOCKHOLDERS' EQUITY (DEFICIT).....</b>	<b>\$ (217,544)</b>	<b>\$ (248,568)</b>	<b>\$ 280,206</b>	<b>\$ 286,889</b>
	=====	=====	=====	=====
<b>COMPREHENSIVE INCOME (LOSS):</b>				
Net income (loss).....	\$ 33,266	\$ (933,854)	\$ (31,574)	\$(183,377)
Other comprehensive income (loss) -- foreign currency translation adjustments.....	4,922	(4,689)	(37)	--
	-----	-----	-----	-----
Comprehensive income (loss).....	\$ 38,188	\$ (938,543)	\$ (31,611)	\$(183,377)
	=====	=====	=====	=====

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

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Description of Company

Chesapeake Energy Corporation is an oil and natural gas exploration and production company engaged in the acquisition, exploration, and development of properties for the production of crude oil and natural gas from underground reservoirs. Chesapeake's properties are located in Oklahoma, Texas, Arkansas, Louisiana, Kansas, Montana, Colorado, North Dakota, New Mexico and British Columbia and Saskatchewan, Canada.

These consolidated financial statements relate to the years ended December 31, 1999 ("1999"), December 31, 1998 ("1998") and June 30, 1997 ("fiscal 1997"). Chesapeake changed its fiscal year end from June 30 to December 31 in 1997. Chesapeake's results of operations and cash flows for the six months ended December 31, 1997 (the "Transition Period") are also included in these consolidated financial statements.

## Principles of Consolidation

The accompanying consolidated financial statements of Chesapeake Energy Corporation include the accounts of its direct and indirect wholly-owned subsidiaries ("Chesapeake"). All significant intercompany accounts and transactions have been eliminated. Investments in companies and partnerships which give Chesapeake significant influence, but not control, over the investee are accounted for using the equity method.

## Accounting Estimates

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

## Cash Equivalents

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

## Investments in Securities

Chesapeake invests in various equity securities and short-term debt instruments including corporate bonds and auction preferreds, commercial paper and government agency notes. Chesapeake has classified all of its short-term investments in equity and debt instruments as trading securities, which are carried at fair value with unrealized holding gains and losses included in earnings. Investments in equity securities and limited partnerships that do not have readily determinable fair values are stated at cost and are included in noncurrent other assets. In determining realized gains and losses, the cost of securities sold is based on the average cost method.

## Inventory

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## Oil and Gas Properties

Chesapeake follows the full-cost method of accounting under which all costs associated with property acquisition, exploration and development activities are capitalized. Chesapeake capitalizes internal costs that can be directly identified with its acquisition, exploration and development activities and does not include any costs related to production, general corporate overhead or similar activities (see Note 11). Capitalized costs are amortized on a composite unit-of-production method based on proved oil and gas reserves. As of December 31, 1999, approximately 66% of Chesapeake's proved reserve value (based on SEC PV-10%) was evaluated by independent petroleum engineers, with the balance evaluated by Chesapeake's engineers. In addition, Chesapeake's engineers evaluate all properties quarterly. The average composite rates used for depreciation, depletion and amortization were \$0.71 (\$0.73 in U.S. and \$0.52 in Canada) per equivalent Mcf in 1999, \$1.13 (\$1.17 in U.S. and \$0.43 in Canada) per equivalent Mcf in 1998, \$1.57 per equivalent Mcf in the Transition Period and \$1.31 per equivalent Mcf in fiscal 1997. Chesapeake did not have operations in Canada prior to 1998.

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

Chesapeake reviews the carrying value of its oil and gas properties under the full-cost accounting rules of the Securities and Exchange Commission on a quarterly basis. Under these rules, capitalized costs, less accumulated amortization and related deferred income taxes, may not exceed an amount equal to the sum of the present value of estimated future net revenues less estimated future expenditures to be incurred in developing and producing the proved reserves, less any related income tax effects. During 1998, capitalized costs of oil and gas properties exceeded the estimated present value of future net revenues from Chesapeake's proved reserves, net of related income tax considerations, resulting in writedowns in the carrying value of oil and gas properties of \$826 million. During the Transition Period, capitalized costs of oil and gas properties exceeded the estimated present value of future net revenues from Chesapeake's proved reserves, net of related income tax considerations, resulting in a writedown in the carrying value of oil and gas properties of \$110 million. During fiscal 1997, capitalized costs of oil and gas properties exceeded the estimated present value of future net revenues from Chesapeake's proved reserves, net of related income tax considerations, resulting in a writedown in the carrying value of oil and gas properties of \$236 million.

## Other Property and Equipment

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## Capitalized Interest

During 1999, 1998, the Transition Period and fiscal 1997, interest of approximately \$3.5 million, \$6.5 million, \$5.1 million and \$12.9 million, respectively, was capitalized on significant investments in unproved properties that were not being currently depreciated, depleted, or amortized and on which exploration activities were in progress.

## Income Taxes

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

## Net Income (Loss) Per Share

Statement of Financial Accounting Standards No. 128, Earnings Per Share ("SFAS 128") requires presentation of "basic" and "diluted" earnings per share, as defined, on the face of the statement of operations for all entities with complex capital structures. SFAS 128 requires a reconciliation of the numerator and denominator of the basic and diluted EPS computations. For 1998, the Transition Period and fiscal 1997, there was no difference between actual weighted average shares outstanding, which are used in computing basic EPS, and diluted weighted average shares, which are used in computing diluted EPS. Options to purchase 12.9 million, 11.3 million, 8.3 million and 7.9 million shares of common stock at weighted average exercise prices of \$1.76, \$1.86, \$5.49 and \$7.09 were outstanding during 1999, 1998, the Transition Period and fiscal 1997 but were not included in the computation of diluted EPS in 1998, the Transition Period and fiscal 1997 because the effect of these outstanding options would be antidilutive. Also, the convertible preferred stock was not included in the 1999 and 1998 calculation because the effect was antidilutive. A reconciliation for 1999 is as follows:

	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
	-----	-----	-----
FOR THE YEAR ENDED DECEMBER 31, 1999:			
BASIC EPS			
Income available to common stockholders.....	\$16,555	97,077	\$0.17 =====
EFFECT OF DILUTIVE SECURITIES			
Employee stock options.....	--	4,961	
	-----	-----	
DILUTED EPS			
Income available to common stockholders and assumed conversions.....	\$16,555 =====	102,038 =====	\$0.16 =====

## Gas Imbalances -- Revenue Recognition

Revenues from the sale of oil and gas production are recognized when title passes, net of royalties. Chesapeake follows the "sales method" of accounting for its gas revenue whereby Chesapeake recognizes sales revenue on all gas sold to its purchasers, regardless of whether the sales are proportionate to Chesapeake's ownership in the property. A liability is recognized only to the extent that Chesapeake has a net imbalance in excess of the remaining gas reserves on the underlying properties. Chesapeake's net imbalance positions at December 31, 1999 and 1998 were not material.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## Hedging

Chesapeake periodically uses certain instruments to hedge its exposure to price fluctuations on oil and natural gas transactions and interest rates. Recognized gains and losses on hedge contracts are reported as a component of the related transaction. Results of oil and gas hedging transactions are reflected in oil and gas sales to the extent related to Chesapeake's oil and gas production, in oil and gas marketing sales to the extent related to Chesapeake's marketing activities, and in interest expense to the extent so related.

## Debt Issue Costs

Included in other assets are costs associated with the issuance of the senior notes. The remaining unamortized costs on these issuances of senior notes at December 31, 1999 totaled \$16.6 million and are being amortized over the life of the senior notes.

## Comprehensive Income

In 1998, Chesapeake adopted SFAS No. 130, Reporting Comprehensive Income. This statement establishes rules for the reporting of comprehensive income and its components. Comprehensive income consists of net income and foreign currency translation adjustments and is presented in the Consolidated Statements of Stockholders' Equity (Deficit) and Comprehensive Income (Loss). The adoption of SFAS 130 had no impact on total stockholders' equity. Prior year financial statements have been reclassified to conform to the SFAS 130 requirements. All balance sheet accounts of foreign operations are translated into U.S. dollars at the year-end rate of exchange and statement of operations items are translated at the weighted average exchange rates for the year.

## Reclassifications

Certain reclassifications have been made to the consolidated financial statements for 1998, the Transition Period, and fiscal 1997 to conform to the presentation used for the 1999 consolidated financial statements.

## 2. SENIOR NOTES

On April 22, 1998, Chesapeake issued \$500 million principal amount of 9.625% Senior Notes due 2005 ("9.625% Senior Notes"). The 9.625% Senior Notes are redeemable at the option of Chesapeake at any time on or after May 1, 2002 at the redemption prices set forth in the indenture or at the make-whole prices, as set forth in the indenture, if redeemed prior to May 1, 2002. Chesapeake may also redeem at its option up to \$167 million of the 9.625% Senior Notes at 109.625% of their principal amount with the proceeds of an equity offering completed prior to May 1, 2001.

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

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

On April 9, 1996, Chesapeake issued \$120 million principal amount of 9.125% Senior Notes due 2006 ("9.125% Senior Notes"). The 9.125% Senior Notes are redeemable at the option of Chesapeake at any time prior to April 15, 2001 at the make-whole prices determined in accordance with the indenture and, on or after April 15, 2001 at the redemption prices set forth therein.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

On May 25, 1995, Chesapeake issued \$90 million principal amount of 10.5% Senior Notes due 2002 ("10.5% Senior Notes"). In April 1998, Chesapeake purchased all of its 10.5% Senior Notes for approximately \$99 million. The early retirement of these notes resulted in an extraordinary charge of \$13.3 million.

Chesapeake is a holding company and owns no operating assets and has no significant operations independent of its subsidiaries. Chesapeake's obligations under the 9.625% Senior Notes, the 9.125% Senior Notes, the 7.875% Senior Notes and the 8.5% Senior Notes have been fully and unconditionally guaranteed, on a joint and several basis, by each of Chesapeake's "Restricted Subsidiaries" (as defined in the respective indentures governing the Senior Notes) (collectively, the "Guarantor Subsidiaries"). Each of the Guarantor Subsidiaries is a direct or indirect wholly-owned subsidiary of Chesapeake.

The senior note indentures contain certain covenants, including covenants limiting Chesapeake and the Guarantor Subsidiaries with respect to asset sales; restricted payments; the incurrence of additional indebtedness and the issuance of preferred stock; liens; sale and leaseback transactions; lines of business; dividend and other payment restrictions affecting Guarantor Subsidiaries; mergers or consolidations; and transactions with affiliates. Chesapeake is obligated to repurchase the 9.625% and 9.125% Senior Notes in the event of a change of control or certain asset sales.

The senior note indentures also limit Chesapeake's ability to make restricted payments (as defined), including the payment of preferred stock dividends, unless certain tests are met. From December 31, 1998 through December 31, 1999, Chesapeake was unable to meet the requirements to incur additional unsecured indebtedness, and consequently was not able to pay cash dividends on its 7% cumulative convertible preferred stock. Chesapeake had accumulated dividends in arrears of \$19.3 million related to its preferred stock as of February 29, 2000. Subsequent payments will be subject to the same restrictions and are dependent upon variables that are beyond Chesapeake's ability to predict. This restriction does not affect Chesapeake's ability to borrow under or expand its secured commercial bank facility. If Chesapeake fails to pay dividends for six quarterly periods, the holders of preferred stock will be entitled to elect two new directors to the Board. Based on current projections of cash flow and fixed charges, Chesapeake does not expect to be able to pay a dividend on the preferred stock on May 1, 2000, which would be the sixth consecutive dividend payment date on which dividends have not been paid.

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

Chesapeake Energy Marketing, Inc. ("CEMI") was a Non-Guarantor Subsidiary for all periods presented. The following were additional Non-Guarantor Subsidiaries: Chesapeake Acquisition Corporation during the Transition Period and Chesapeake Canada Corporation during fiscal 1997. All of Chesapeake's other subsidiaries were Guarantor Subsidiaries during all periods presented.

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET  
AS OF DECEMBER 31, 1999  
(\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	PARENT	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----	-----
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents.....	\$ (6,964)	\$ 20,409	\$ 25,405	\$ --	\$ 38,850
Accounts receivable.....	45,170	18,297	73	(12,475)	51,065
Inventory.....	4,183	399	--	--	4,582
Other.....	1,997	700	352	--	3,049
	-----	-----	-----	-----	-----
Total current assets.....	44,386	39,805	25,830	(12,475)	97,546
	-----	-----	-----	-----	-----
PROPERTY AND EQUIPMENT:					
Oil and gas properties.....	2,311,633	3,715	--	--	2,315,348
Unevaluated leasehold.....	40,008	--	--	--	40,008
Other property and equipment.....	29,088	20,521	18,103	--	67,712
Less: accumulated depreciation, depletion and amortization.....	(1,683,890)	(18,205)	(1,876)	--	(1,703,971)
	-----	-----	-----	-----	-----
Net property and equipment.....	696,839	6,031	16,227	--	719,097
	-----	-----	-----	-----	-----
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES.....					
	806,180	--	493,738	(1,299,918)	--
	-----	-----	-----	-----	-----
OTHER ASSETS.....	16,402	8,409	16,765	(7,686)	33,890
	-----	-----	-----	-----	-----
TOTAL ASSETS.....	\$ 1,563,807	\$ 54,245	\$ 552,560	\$(1,320,079)	\$ 850,533
	=====	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt....	\$ --	\$ 763	\$ --	\$ --	\$ 763
Accounts payable and other.....	63,194	19,265	17,466	(12,502)	87,423
	-----	-----	-----	-----	-----
Total current liabilities.....	63,194	20,028	17,466	(12,502)	88,186
	-----	-----	-----	-----	-----
LONG-TERM DEBT.....	43,500	1,437	919,160	--	964,097
	-----	-----	-----	-----	-----
REVENUES AND ROYALTIES DUE OTHERS...	9,310	--	--	--	9,310
	-----	-----	-----	-----	-----
DEFERRED INCOME TAXES.....	6,484	--	--	--	6,484
	-----	-----	-----	-----	-----
INTERCOMPANY PAYABLES.....	1,356,466	(2,450)	(1,354,043)	27	--
	-----	-----	-----	-----	-----
STOCKHOLDERS' EQUITY (DEFICIT):					
Common stock.....	27	1	1,048	(17)	1,059
Other.....	84,826	35,229	968,929	(1,307,587)	(218,603)
	-----	-----	-----	-----	-----
	84,853	35,230	969,977	(1,307,604)	(217,544)
	-----	-----	-----	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT).....	\$ 1,563,807	\$ 54,245	\$ 552,560	\$(1,320,079)	\$ 850,533
	=====	=====	=====	=====	=====

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET  
AS OF DECEMBER 31, 1998  
(\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	PARENT	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----	-----
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents.....	\$ (11,565)	\$ 7,000	\$ 39,839	\$ --	\$ 35,274
Accounts receivable.....	54,384	29,641	270	(7,996)	76,299
Inventory.....	4,919	406	--	--	5,325
Other.....	721	15	365	--	1,101
	-----	-----	-----	-----	-----
Total current assets.....	48,459	37,062	40,474	(7,996)	117,999
	-----	-----	-----	-----	-----
PROPERTY AND EQUIPMENT:					
Oil and gas properties.....	2,142,943	--	--	--	2,142,943
Unevaluated leasehold.....	52,687	--	--	--	52,687
Other property and equipment.....	47,628	15,109	16,981	--	79,718
Less: accumulated depreciation, depletion and amortization.....	(1,601,931)	(8,036)	(1,390)	--	(1,611,357)
	-----	-----	-----	-----	-----
Net property and equipment.....	641,327	7,073	15,591	--	663,991
	-----	-----	-----	-----	-----
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES.....					
	473,578	--	481,150	(954,728)	--
	-----	-----	-----	-----	-----
OTHER ASSETS.....	10,610	560	19,455	--	30,625
	-----	-----	-----	-----	-----
TOTAL ASSETS.....	\$ 1,173,974	\$44,695	\$ 556,670	\$(962,724)	\$ 812,615
	=====	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt....	\$ 25,000	\$ --	\$ --	\$ --	\$ 25,000
Accounts payable and other.....	80,786	15,992	17,529	(8,023)	106,284
	-----	-----	-----	-----	-----
Total current liabilities.....	105,786	15,992	17,529	(8,023)	131,284
	-----	-----	-----	-----	-----
LONG-TERM DEBT.....	--	--	919,076	--	919,076
	-----	-----	-----	-----	-----
REVENUES AND ROYALTIES DUE OTHERS...	10,823	--	--	--	10,823
	-----	-----	-----	-----	-----
DEFERRED INCOME TAXES.....	--	--	--	--	--
	-----	-----	-----	-----	-----
INTERCOMPANY PAYABLES.....	1,338,948	11,376	(1,350,351)	27	--
	-----	-----	-----	-----	-----
STOCKHOLDERS' EQUITY (DEFICIT):					
Common stock.....	26	1	1,042	(17)	1,052
Other.....	(281,609)	17,326	969,374	(954,711)	(249,620)
	-----	-----	-----	-----	-----
	(281,583)	17,327	970,416	(954,728)	(248,568)
	-----	-----	-----	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT).....	\$ 1,173,974	\$44,695	\$ 556,670	\$(962,724)	\$ 812,615
	=====	=====	=====	=====	=====

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS  
(\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	PARENT	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----	-----
FOR THE YEAR ENDED DECEMBER 31, 1999:					
REVENUES:					
Oil and gas sales.....	\$ 279,740	\$ --	\$ --	\$ 705	\$ 280,445
Oil and gas marketing sales.....	--	194,605	--	(120,104)	74,501
	-----	-----	-----	-----	-----
Total revenues.....	279,740	194,605	--	(119,399)	354,946
	-----	-----	-----	-----	-----
OPERATING COSTS:					
Production expenses and taxes.....	59,158	404	--	--	59,562
Oil and gas marketing expenses.....	--	190,932	--	(119,399)	71,533
Impairment of oil and gas properties.....	--	--	--	--	--
Impairment of other assets.....	--	--	--	--	--
Oil and gas depreciation, depletion and amortization.....	94,649	395	--	--	95,044
Other depreciation and amortization.....	4,474	80	3,256	--	7,810
General and administrative.....	12,143	1,251	83	--	13,477
	-----	-----	-----	-----	-----
Total operating costs.....	170,424	193,062	3,339	(119,399)	247,426
	-----	-----	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS.....	109,316	1,543	(3,339)	--	107,520
	-----	-----	-----	-----	-----
OTHER INCOME (EXPENSE):					
Interest and other income.....	3,257	4,823	84,120	(83,638)	8,562
Interest expense.....	(82,852)	(96)	(81,742)	83,638	(81,052)
	-----	-----	-----	-----	-----
Total other income (expense).....	(79,595)	4,727	2,378	--	(72,490)
	-----	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM.....					
	29,721	6,270	(961)	--	35,030
INCOME TAX EXPENSE (BENEFIT).....	1,764	--	--	--	1,764
	-----	-----	-----	-----	-----
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM.... EXTRAORDINARY ITEM:	27,957	6,270	(961)	--	33,266
Loss on early extinguishment of debt, net of applicable income tax.....	--	--	--	--	--
	-----	-----	-----	-----	-----
NET INCOME (LOSS).....	\$ 27,957	\$ 6,270	\$ (961)	\$ --	\$ 33,266
	=====	=====	=====	=====	=====
FOR THE YEAR ENDED DECEMBER 31, 1998:					
REVENUES:					
Oil and gas sales.....	\$ 254,541	\$ --	\$ --	\$ 2,346	\$ 256,887
Oil and gas marketing sales.....	--	225,195	--	(104,136)	121,059
	-----	-----	-----	-----	-----
Total revenues.....	254,541	225,195	--	(101,790)	377,946
	-----	-----	-----	-----	-----
OPERATING COSTS:					
Production expenses and taxes.....	59,497	--	--	--	59,497
Oil and gas marketing expenses.....	--	220,798	--	(101,790)	119,008
Impairment of oil and gas properties.....	826,000	--	--	--	826,000
Impairment of other assets.....	47,000	8,000	--	--	55,000
Oil and gas depreciation, depletion and amortization.....	146,644	--	--	--	146,644
Other depreciation and amortization.....	5,204	126	2,746	--	8,076
General and administrative.....	18,081	1,766	71	--	19,918
	-----	-----	-----	-----	-----
Total operating costs.....	1,102,426	230,690	2,817	(101,790)	1,234,143
	-----	-----	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS.....	(847,885)	(5,495)	(2,817)	--	(856,197)
	-----	-----	-----	-----	-----
OTHER INCOME (EXPENSE):					
Interest and other income.....	649	2,259	100,886	(99,868)	3,926
Interest expense.....	(96,214)	(382)	(71,521)	99,868	(68,249)
	-----	-----	-----	-----	-----
Total other income (expense).....	(95,565)	1,877	29,365	--	(64,323)
	-----	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM.....					
	(943,450)	(3,618)	26,548	--	(920,520)
INCOME TAX EXPENSE (BENEFIT).....	--	--	--	--	--
	-----	-----	-----	-----	-----
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM.... EXTRAORDINARY ITEM:	(943,450)	(3,618)	26,548	--	(920,520)
Loss on early extinguishment of debt, net of applicable income tax.....	(2,164)	--	(11,170)	--	(13,334)
	-----	-----	-----	-----	-----
NET INCOME (LOSS).....	\$ (945,614)	\$ (3,618)	\$ 15,378	\$ --	\$ (933,854)
	=====	=====	=====	=====	=====

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS -- (CONTINUED)  
(\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	PARENT	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----	-----
FOR THE SIX MONTHS ENDED DECEMBER 31, 1997:					
REVENUES:					
Oil and gas sales.....	\$ 93,384	\$ 1,199	\$ --	\$ 1,074	\$ 95,657
Oil and gas marketing sales.....	--	101,689	--	(43,448)	58,241
	-----	-----	-----	-----	-----
Total revenues.....	93,384	102,888	--	(42,374)	153,898
	-----	-----	-----	-----	-----
OPERATING COSTS:					
Production expenses and taxes.....	9,905	189	--	--	10,094
Oil and gas marketing expenses.....	--	100,601	--	(42,374)	58,227
Impairment of oil and gas properties.....	96,000	14,000	--	--	110,000
Oil and gas depreciation, depletion and amortization.....	59,758	650	--	--	60,408
Other depreciation and amortization.....	1,383	40	991	--	2,414
General and administrative.....	4,598	1,132	117	--	5,847
	-----	-----	-----	-----	-----
Total operating costs.....	171,644	116,612	1,108	(42,374)	246,990
	-----	-----	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS.....	(78,260)	(13,724)	(1,108)	--	(93,092)
	-----	-----	-----	-----	-----
OTHER INCOME (EXPENSE):					
Interest and other income.....	515	192	110,751	(32,492)	78,966
Interest expense.....	(27,481)	(39)	(22,420)	32,492	(17,448)
	-----	-----	-----	-----	-----
Total other income (expense).....	(26,966)	153	88,331	--	61,518
	-----	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM.....	(105,226)	(13,571)	87,223	--	(31,574)
INCOME TAX EXPENSE (BENEFIT).....	--	--	--	--	--
	-----	-----	-----	-----	-----
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM.....	(105,226)	(13,571)	87,223	--	(31,574)
EXTRAORDINARY ITEM.....	--	--	--	--	--
	-----	-----	-----	-----	-----
NET INCOME (LOSS).....	<u>\$ (105,226)</u>	<u>\$ (13,571)</u>	<u>\$ 87,223</u>	<u>\$ --</u>	<u>\$ (31,574)</u>
	=====	=====	=====	=====	=====
FOR THE YEAR ENDED JUNE 30, 1997:					
REVENUES:					
Oil and gas sales.....	\$ 191,303	\$ --	\$ --	\$ 1,617	\$ 192,920
Oil and gas marketing sales.....	--	145,942	--	(69,770)	76,172
	-----	-----	-----	-----	-----
Total revenues.....	191,303	145,942	--	(68,153)	269,092
	-----	-----	-----	-----	-----
OPERATING COSTS:					
Production expenses and taxes.....	15,107	--	--	--	15,107
Oil and gas marketing expenses.....	--	143,293	--	(68,153)	75,140
Impairment of oil and gas properties.....	236,000	--	--	--	236,000
Oil and gas depreciation, depletion and amortization.....	103,264	--	--	--	103,264
Other depreciation and amortization.....	2,152	80	1,550	--	3,782
General and administrative.....	6,313	921	1,568	--	8,802
	-----	-----	-----	-----	-----
Total operating costs.....	362,836	144,294	3,118	(68,153)	442,095
	-----	-----	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS.....	(171,533)	1,648	(3,118)	--	(173,003)
	-----	-----	-----	-----	-----
OTHER INCOME (EXPENSE):					
Interest and other income.....	778	749	49,224	(39,528)	11,223
Interest expense.....	(37,644)	(10)	(20,424)	39,528	(18,550)
	-----	-----	-----	-----	-----
Total other income (expense).....	(36,866)	739	28,800	--	(7,327)
	-----	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM.....	(208,399)	2,387	25,682	--	(180,330)
INCOME TAX EXPENSE (BENEFIT).....	(4,129)	47	509	--	(3,573)
	-----	-----	-----	-----	-----
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM.....	(204,270)	2,340	25,173	--	(176,757)
EXTRAORDINARY ITEM:					
Loss on early extinguishment of debt, net of applicable income tax.....	(769)	--	(5,851)	--	(6,620)
	-----	-----	-----	-----	-----
NET INCOME (LOSS).....	<u>\$ (205,039)</u>	<u>\$ 2,340</u>	<u>\$ 19,322</u>	<u>\$ --</u>	<u>\$ (183,377)</u>
	=====	=====	=====	=====	=====

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	PARENT	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----	-----
FOR THE YEAR ENDED DECEMBER 31, 1999:					
CASH FLOWS FROM OPERATING ACTIVITIES.....	\$ 135,303	\$ 7,193	\$ 2,526	\$--	\$ 145,022
CASH FLOWS FROM INVESTING ACTIVITIES:					
Oil and gas properties, net.....	(159,888)	2,362	--	--	(157,526)
Proceeds from sale of assets.....	2,082	3,448	--	--	5,530
Other investments.....	(480)	(250)	--	--	(730)
Other additions.....	(5,777)	(72)	(1,198)	--	(7,047)
	(164,063)	5,488	(1,198)	--	(159,773)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from long-term borrowings.....	116,500	--	--	--	116,500
Payments on long-term borrowings.....	(98,000)	--	--	--	(98,000)
Cash paid for purchase of preferred stock...	--	(53)	--	--	(53)
Exercise of stock options.....	--	--	520	--	520
Intercompany advances, net.....	15,501	781	(16,282)	--	--
	34,001	728	(15,762)	--	18,967
EFFECT OF EXCHANGE RATE CHANGES ON CASH.....	4,922	--	--	--	4,922
Net increase (decrease) in cash and cash equivalents.....	10,163	13,409	(14,434)	--	9,138
Cash, beginning of period.....	(17,319)	7,000	39,839	--	29,520
Cash, end of period.....	\$ (7,156)	\$ 20,409	\$ 25,405	\$--	\$ 38,658
	=====	=====	=====	=====	=====
FOR THE YEAR ENDED DECEMBER 31, 1998:					
CASH FLOWS FROM OPERATING ACTIVITIES.....	\$ 66,960	\$(13,137)	\$ 40,816	\$--	\$ 94,639
CASH FLOWS FROM INVESTING ACTIVITIES:					
Oil and gas properties.....	(523,922)	--	--	--	(523,922)
Proceeds from sale of assets.....	--	--	3,600	--	3,600
Investment in preferred stock of Gothic Energy Corporation.....	(39,500)	--	--	--	(39,500)
Repayment of note receivable.....	2,000	--	--	--	2,000
Proceeds from sale of PanEast Petroleum Corporation.....	--	--	21,245	--	21,245
Other additions.....	(2,510)	8,408	(17,371)	--	(11,473)
	(563,932)	8,408	7,474	--	(548,050)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from long-term borrowings.....	--	--	658,750	--	658,750
Payments on long-term borrowings.....	--	--	(474,166)	--	(474,166)
Cash received from issuance of preferred stock.....	--	--	222,663	--	222,663
Cash paid for purchase of treasury stock....	--	--	(29,962)	--	(29,962)
Dividends paid on common stock and preferred stock.....	--	--	(13,642)	--	(13,642)
Exercise of stock options.....	--	--	154	--	154
Intercompany advances, net.....	476,663	6,035	(482,698)	--	--
	476,663	6,035	(118,901)	--	363,797
EFFECT OF EXCHANGE RATE CHANGES ON CASH.....	(4,726)	--	--	--	(4,726)
Net increase (decrease) in cash and cash equivalents.....	(25,035)	1,306	(70,611)	--	(94,340)
Cash, beginning of period.....	(284)	13,694	110,450	--	123,860
Cash, end of period.....	\$ (25,319)	\$ 15,000	\$ 39,839	\$--	\$ 29,520
	=====	=====	=====	=====	=====

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	PARENT	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----	-----
FOR THE SIX MONTHS ENDED DECEMBER 31, 1997:					
CASH FLOWS FROM OPERATING ACTIVITIES...	\$ 28,598	\$(10,842)	\$ 121,401	\$ --	\$ 139,157
	-----	-----	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:					
Oil and gas properties.....	(187,252)	--	--	--	(187,252)
Investment in service operations.....	(200)	--	--	--	(200)
Other investments.....	(26,472)	--	99,380	--	72,908
Other additions.....	(22,864)	1,357	(453)	--	(21,960)
	-----	-----	-----	-----	-----
	(236,788)	1,357	98,927	--	(136,504)
	-----	-----	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:					
Dividends paid on common stock.....	--	--	(2,810)	--	(2,810)
Exercise of stock options.....	--	--	322	--	322
Other financing.....	--	(322)	--	--	(322)
Intercompany advances, net.....	214,135	19,443	(233,578)	--	--
	-----	-----	-----	-----	-----
	214,135	19,121	(236,066)	--	(2,810)
	-----	-----	-----	-----	-----
Net increase (decrease) in cash and cash equivalents.....					
	5,945	9,636	(15,738)	--	(157)
Cash, beginning of period.....	(6,534)	4,363	126,188	--	124,017
	-----	-----	-----	-----	-----
Cash, end of period.....	\$ (589)	\$ 13,999	\$ 110,450	\$ --	\$ 123,860
	=====	=====	=====	=====	=====
FOR THE YEAR ENDED JUNE 30, 1997:					
CASH FLOWS FROM OPERATING ACTIVITIES...	\$ 165,850	\$(11,008)	\$ (70,753)	\$ --	\$ 84,089
	-----	-----	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:					
Oil and gas properties.....	(465,424)	57	--	--	(465,367)
Proceeds from sale of assets.....	6,428	--	--	--	6,428
Investment in service operations.....	(3,048)	--	--	--	(3,048)
Long-term loans to third parties.....	(2,000)	--	(18,000)	--	(20,000)
Other investments.....	--	--	(8,000)	--	(8,000)
Other additions.....	(24,318)	(1,999)	(7,550)	--	(33,867)
	-----	-----	-----	-----	-----
	(488,362)	(1,942)	(33,550)	--	(523,854)
	-----	-----	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from borrowings.....	50,000	--	292,626	--	342,626
Payments on borrowings.....	(118,901)	--	(680)	--	(119,581)
Exercise of stock options.....	--	--	1,387	--	1,387
Issuance of common stock.....	--	--	288,091	--	288,091
Other financing.....	--	--	(379)	--	(379)
Intercompany advances, net.....	380,735	14,645	(395,380)	--	--
	-----	-----	-----	-----	-----
	311,834	14,645	185,665	--	512,144
	-----	-----	-----	-----	-----
Net increase (decrease) in cash and cash equivalents.....					
	(10,678)	1,695	81,362	--	72,379
Cash, beginning of period.....	4,144	2,668	44,826	--	51,638
	-----	-----	-----	-----	-----
Cash, end of period.....	\$ (6,534)	\$ 4,363	\$ 126,188	\$ --	\$ 124,017
	=====	=====	=====	=====	=====

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON- GUARANTOR SUBSIDIARIES	PARENT	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----	-----
FOR THE YEAR ENDED DECEMBER 31, 1999:					
Net income (loss).....	\$ 27,957	\$ 6,270	\$ (961)	\$--	\$ 33,266
Other comprehensive income (loss) -- foreign currency translation.....	4,922	--	--	--	4,922
Comprehensive income.....	\$ 32,879	\$ 6,270	\$ (961)	\$--	\$ 38,188
	=====	=====	=====	===	=====
FOR THE YEAR ENDED DECEMBER 31, 1998:					
Net income (loss).....	\$(945,614)	\$( 3,618)	\$15,378	\$--	\$(933,854)
Other comprehensive income (loss) -- foreign currency translation.....	(4,689)	--	--	--	(4,689)
Comprehensive income (loss).....	\$(950,303)	\$( 3,618)	\$15,378	\$--	\$(938,543)
	=====	=====	=====	===	=====
FOR THE SIX MONTHS ENDED DECEMBER 31, 1997:					
Net income (loss).....	\$(105,226)	\$(13,571)	\$87,223	\$--	\$ (31,574)
Other comprehensive income (loss) -- foreign currency translation.....	(37)	--	--	--	(37)
Comprehensive income (loss).....	\$(105,263)	\$(13,571)	\$87,223	\$--	\$ (31,611)
	=====	=====	=====	===	=====
FOR THE YEAR ENDED JUNE 30, 1997:					
Net income (loss).....	\$(205,039)	\$ 2,340	\$19,322	\$--	\$(183,377)
Other comprehensive income (loss) -- foreign currency translation.....	--	--	--	--	--
Comprehensive income (loss).....	\$(205,039)	\$ 2,340	\$19,322	\$--	\$(183,377)
	=====	=====	=====	===	=====



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 3. NOTES PAYABLE AND LONG-TERM DEBT

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

	DECEMBER 31,	
	1999	1998
	(\$ IN THOUSANDS)	
7.875% Senior Notes (see Note 2).....	\$150,000	\$150,000
Discount on 7.875% Senior Notes.....	(73)	(90)
8.5% Senior Notes (see Note 2).....	150,000	150,000
Discount on 8.5% Senior Notes.....	(715)	(774)
9.125% Senior Notes (see Note 2).....	120,000	120,000
Discount on 9.125% Senior Notes.....	(52)	(60)
9.625% Senior Notes (see Note 2).....	500,000	500,000
Note payable.....	2,200	--
Other collateralized.....	43,500	25,000
	-----	-----
Total notes payable and long-term debt.....	964,860	944,076
Less -- current maturities.....	(763)	(25,000)
	-----	-----
Notes payable and long-term debt, net of current maturities.....	\$964,097	\$919,076
	=====	=====

The aggregate scheduled maturities of notes payable and long-term debt for the next five fiscal years ending December 31, 2004 and thereafter were as follows as of December 31, 1999 (in thousands of dollars):

2000.....	\$ 763
2001.....	44,336
2002.....	601
2003.....	--
2004.....	149,927
After 2004.....	769,233
	-----
	\$964,860
	=====

## 4. CONTINGENCIES AND COMMITMENTS

## Bayard Securities Litigation

A purported class action alleging violations of the Securities Act of 1933 and the Oklahoma Securities Act was first filed in February 1998 against Chesapeake and others on behalf of investors who purchased common stock of Bayard Drilling Technologies, Inc. ("Bayard") in, or traceable to, its initial public offering in November 1997. Total proceeds of the offering were \$254 million, of which Chesapeake received net proceeds of \$90 million as a selling shareholder. Plaintiffs allege that Chesapeake, a major customer of Bayard's drilling services and the owner of 30.1% of Bayard's common stock outstanding prior to the offering, was a controlling person of Bayard. Alleged defective disclosures are claimed to have resulted in a decline in Bayard's share price following the public offering. Plaintiffs seek a determination that the suit is a proper class action and damages in an unspecified amount or rescission, together with interest and costs of litigation, including attorneys' fees.

On August 24, 1999, the court dismissed plaintiffs' claims against Chesapeake under Section 15 of the Securities Act of 1933 alleging that Chesapeake was a "controlling person" of Bayard. Claims under Section 11 of the Securities Act of 1933 and Section 408 of the Oklahoma Securities Act continue to be asserted against Chesapeake. Chesapeake believes that it has meritorious defenses to these claims and

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

intends to defend this action vigorously. No estimate of loss or range of estimate of loss, if any, can be made at this time. Bayard, which was acquired by Nabors Industries, Inc. in April 1999, has been reimbursing Chesapeake for its costs of defense as incurred.

## Patent Litigation

On September 21, 1999, judgment was entered in favor of Chesapeake in a patent infringement lawsuit tried to the U.S. District Court for the Northern District of Texas, Fort Worth Division. Filed in October 1996, the lawsuit asserted that Chesapeake had infringed a patent belonging to Union Pacific Resources Company. The court declared the patent invalid, held that Chesapeake could not have infringed the patent, dismissed all of UPRC's claims with prejudice and assessed court costs against UPRC. Appeals of the judgment by both Chesapeake and UPRC are pending in the Federal Circuit Court of Appeals. Chesapeake has appealed the trial court's ruling denying Chesapeake's request for attorneys' fees. Management is unable to predict the outcome of these appeals but believes the invalidity of the patent will be upheld on appeal.

## West Panhandle Field Cessation Cases

A subsidiary of Chesapeake, Chesapeake Panhandle Limited Partnership ("CP") (f/k/a MC Panhandle, Inc.), and two subsidiaries of Kinder Morgan, Inc. are defendants in 13 lawsuits filed between June 1997 and January 1999 by royalty owners seeking the cancellation of oil and gas leases in the West Panhandle Field in Texas. Chesapeake acquired MC Panhandle, Inc. on April 28, 1998. MC Panhandle, Inc. has owned the leases since January 1, 1997, and the co-defendants are prior lessees. Plaintiffs claim the leases terminated upon the cessation of production for various periods primarily during the 1960s. In addition, plaintiffs seek to recover conversion damages, exemplary damages, attorneys' fees and interest. Defendants assert that any cessation of production was excused and have pled affirmative defenses of limitations, waiver, temporary estoppel, laches and title by adverse possession.

Of the ten cases filed in the District Court of Moore County, Texas, 69th Judicial District, three have been tried to a jury. Judgment has been entered against CP and its co-defendants in all three cases, although there was a jury verdict in two of the cases in favor of defendants. Chesapeake's aggregate liability for these judgments is \$1.3 million of actual damages and \$1.2 million of exemplary damages and, jointly and severally with the other two defendants, \$1.5 million of actual damages and \$337,000 of attorneys' fees in the event of an appeal, sanctions, interest and court costs. The court also quieted title to the leases in dispute in plaintiffs. CP and the other defendants have each appealed the judgments and posted supersedeas bonds in two of these cases and post-trial motions are pending in the other one. One of the other Moore County, Texas cases has been set for trial in May 2000. There are three related cases pending in other courts. One is set for trial in June 2000, and another, in the U.S. District Court, Northern District of Texas, Amarillo Division, resulted in a jury verdict for CP and its co-defendants. Judgment has not yet been entered in this case.

Chesapeake has previously established an accrued liability that management believes will be sufficient to cover the estimated costs of litigation for each of these cases. Because of the inconsistent verdicts reached by the juries in the four cases tried to date and because the amount of damages sought is not specified in all of the other cases, the outcome of the remaining trials and the amount of damages that might ultimately be awarded could differ from management's estimates. Management believes, however, that the leases are valid, there is no basis for exemplary damages and that any findings of fraud or bad faith will be overturned on appeal. CP and the other defendants intend to vigorously defend against the plaintiffs' claims.

Chesapeake is currently involved in various other routine disputes incidental to its business operations. While it is not possible to determine the ultimate disposition of these matters, management, after



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

	YEARS ENDED DECEMBER 31,	
	1999	1998
	(\$ IN THOUSANDS)	
Deferred tax liabilities:		
Acquisition, exploration and development costs and related depreciation, depletion and amortization.....	\$(13,251)	\$ --
Deferred tax assets:		
Acquisition, exploration and development costs and related depreciation, depletion and amortization.....	218,728	242,765
Net operating loss carryforwards.....	228,279	214,602
Percentage depletion carryforward.....	1,776	1,536
	448,783	458,903
Net deferred tax asset (liability).....	435,532	458,903
Less: Valuation allowance.....	(442,016)	(458,903)
Total deferred tax asset (liability).....	\$ (6,484)	\$ --

SFAS 109 requires that Chesapeake record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In 1998, Chesapeake recorded an \$826 million writedown related to the impairment of oil and gas properties. The writedown and significant tax net operating loss carryforwards (caused primarily by expensing intangible drilling costs for tax purposes) resulted in a net deferred tax asset at December 31, 1999 and 1998. Chesapeake expects to generate future U.S. tax net operating losses for the foreseeable future. Management has determined that it is more likely than not that the net U.S. deferred tax assets will not be realized and has recorded a valuation allowance equal to the net U.S. deferred tax asset.

At December 31, 1998, \$5.7 million of the valuation allowance was related to Chesapeake's Canadian deferred tax assets. During 1999, this valuation allowance was eliminated as part of a purchase price reallocation related to a 1998 acquisition.

At December 31, 1999, Chesapeake had a U.S. regular tax net operating loss carryforward of approximately \$613 million and a U.S. alternative minimum tax net operating loss carryforward of approximately \$267 million. The U.S. loss carryforward amounts will expire during the years 2007 through 2019. Chesapeake also had a U.S. percentage depletion carryforward of approximately \$5 million at December 31, 1999, which is available to offset future U.S. federal income taxes payable and has no expiration date.

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

## 6. RELATED PARTY TRANSACTIONS

Certain directors, shareholders and employees of Chesapeake have acquired working interests in certain of Chesapeake's oil and gas properties. The owners of such working interests are required to pay

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

their proportionate share of all costs. As of December 31, 1999 and 1998, Chesapeake had accounts receivable from related parties, primarily related to such participation, of \$4.6 million and \$5.6 million, respectively.

As of December 31, 1998, the Chief Executive Officer and Chief Operating Officer of Chesapeake had notes payable to CEMI in the principal amount of \$9.9 million. In November 1999, the Chief Executive Officer and the Chief Operating Officer tendered to CEMI 2,320,107 shares of Chesapeake common stock in full satisfaction of the notes payable to CEMI with a combined outstanding balance of \$7.6 million. The common stock was valued at \$3.29 per share, which was the market value of the stock at the time of the transaction.

During 1999, 1998, the Transition Period and fiscal 1997, Chesapeake incurred legal expenses of \$398,000, \$493,000, \$388,000 and \$207,000, respectively, for legal services provided by a law firm of which a director is a member.

## 7. EMPLOYEE BENEFIT PLANS

Chesapeake maintains the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan, a 401(k) profit sharing plan. Eligible employees may make voluntary contributions to the plan which are matched by Chesapeake for up to 10% of the employee's annual salary with Chesapeake's common stock purchased in the open-market. The amount of employee contribution is limited as specified in the plan. Chesapeake may, at its discretion, make additional contributions to the plan. Chesapeake contributed \$1,163,000, \$1,359,000, \$418,000 and \$603,000 to the plan during 1999, 1998, the Transition Period and fiscal 1997, respectively.

## 8. MAJOR CUSTOMERS AND SEGMENT INFORMATION

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

	AMOUNT	PERCENT OF OIL AND GAS SALES
	-----	-----
	(\$ IN THOUSANDS)	
YEAR ENDED DECEMBER 31,		
1999 Aquila Southwest Pipeline Corporation.....	\$31,505	11%
1998 Koch Oil Company.....	\$30,564	12%
Aquila Southwest Pipeline Corporation.....	28,946	11
SIX MONTHS ENDED DECEMBER 31,		
1997 Aquila Southwest Pipeline Corporation.....	\$20,138	21%
Koch Oil Company.....	18,594	19
GPM Gas Corporation.....	12,610	13
FISCAL YEAR ENDED JUNE 30,		
1997 Aquila Southwest Pipeline Corporation.....	\$53,885	28%
Koch Oil Company.....	29,580	15
GPM Gas Corporation.....	27,682	14

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

Chesapeake believes all of its material operations are part of the oil and gas industry, and therefore reports as a single industry segment. Beginning in 1998, Chesapeake began foreign operations in Canada.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The geographic distribution of Chesapeake's revenue, operating income and identifiable assets are summarized below (\$ in thousands):

	UNITED STATES	CANADA	CONSOLIDATED
	-----	-----	-----
1999:			
Revenue.....	\$ 340,969	\$ 13,977	\$ 354,946
Operating income (loss).....	103,188	4,332	107,520
Identifiable assets.....	735,320	115,213	850,533
1998:			
Revenue.....	\$ 369,968	\$ 7,978	\$ 377,946
Operating income (loss).....	(842,798)	(13,399)	(856,197)
Identifiable assets.....	724,713	87,902	812,615

## 9. STOCKHOLDERS' EQUITY AND STOCK BASED COMPENSATION

In November 1999, the Chief Executive Officer and the Chief Operating Officer of Chesapeake tendered to CEMI 2,320,107 shares of Chesapeake common stock in full satisfaction of two notes payable to CEMI with a combined outstanding balance of \$7.6 million. See Note 6.

During 1998, Chesapeake's Board of Directors approved the expenditure of up to \$30 million to purchase outstanding Company common stock. As of August 25, 1998, Chesapeake had purchased approximately 8.5 million shares of common stock for an aggregate amount of \$30 million pursuant to such authorization.

On April 28, 1998, Chesapeake acquired by merger the Mid-Continent operations of DLB Oil & Gas, Inc. ("DLB") for \$17.5 million in cash, 5 million shares of Chesapeake's common stock, and the assumption of \$90 million in outstanding debt and working capital obligations.

On April 22, 1998, Chesapeake issued \$230 million (4.6 million shares) of its 7% Cumulative Convertible Preferred Stock, \$50 per share liquidation preference, resulting in net proceeds to Chesapeake of \$223 million.

On March 10, 1998, Chesapeake acquired Hugoton Energy Corporation ("Hugoton") pursuant to a merger by issuing approximately 25.8 million shares of Chesapeake's common stock in exchange for 100% of Hugoton's common stock.

On December 16, 1997, Chesapeake acquired AnSon Production Corporation. Consideration for this merger was approximately \$43 million consisting of the issuance of approximately 3.8 million shares of Company common stock and cash consideration in accordance with the terms of the merger agreement.

On December 2, 1996, Chesapeake completed a public offering of approximately 9.0 million shares of common stock at a price of \$33.63 per share, resulting in net proceeds to Chesapeake of approximately \$288.1 million.

A 2-for-1 stock split of the common stock in December 1996 has been given retroactive effect in these financial statements.

## Stock Option Plans

Chesapeake's 1992 Incentive Stock Option Plan (the "ISO Plan") terminated on December 16, 1994. Until then, Chesapeake granted incentive stock options to purchase common stock under the ISO Plan to employees. Subject to any adjustment as provided by the ISO Plan, the aggregate number of shares which may be issued and sold may not exceed 3,762,000 shares. The maximum period for exercise of an option

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

may not be more than 10 years (or five years for an optionee who owns more than 10% of the common stock) from the date of grant, and the exercise price may not be less than the fair market value of the shares underlying the options on the date of grant (or 110% of such value for an optionee who owns more than 10% of the common stock). Options granted become exercisable at dates determined by the Stock Option Committee of the Board of Directors.

Under Chesapeake's 1992 Nonstatutory Stock Option Plan (the "NSO Plan"), non-qualified options to purchase common stock may be granted only to directors and consultants of Chesapeake. Subject to any adjustment as provided by the NSO Plan, the aggregate number of shares which may be issued and sold may not exceed 3,132,000 shares. The maximum period for exercise of an option may not be more than 10 years from the date of grant, and the exercise price may not be less than the fair market value of the shares underlying the options on the date of grant. Options granted become exercisable at dates determined by the Stock Option Committee of the Board of Directors. The NSO Plan also contains a formula award provision pursuant to which each director who is not an executive officer receives every quarter a ten-year immediately exercisable option to purchase 6,250 shares of common stock at an option price equal to the fair market value of the shares on the date of grant. The amount of the award was changed from 20,000 shares (post-split) to 15,000 shares per year in 1998 and to 25,000 shares per year in 1999. No options can be granted under the NSO Plan after December 10, 2002.

Under Chesapeake's 1994 Stock Option Plan (the "1994 Plan"), and its 1996 Stock Option Plan (the "1996 Plan"), incentive and nonqualified stock options to purchase Common Stock may be granted to employees and consultants of Chesapeake and its subsidiaries. Subject to any adjustment as provided by the respective plans, the aggregate number of shares which may be issued and sold may not exceed 4,886,910 shares under the 1994 Plan and 6,000,000 shares under the 1996 Plan. The maximum period for exercise of an option may not be more than 10 years from the date of grant and the exercise price of nonqualified stock options may not be less than par value and, under the 1996 Plan, 85% of the fair market value of the shares underlying the options on the date of grant. Options granted become exercisable at dates determined by the Stock Option Committee of the Board of Directors. No options can be granted under the 1994 Plan after October 17, 2004 or under the 1996 Plan after October 14, 2006.

Under Chesapeake's 1999 Stock Option Plan (the "1999 Plan"), nonqualified stock options to purchase Common Stock may be granted to employees and consultants of Chesapeake and its subsidiaries. Subject to any adjustment as provided by the plan, the aggregate number of shares which may be issued and sold may not exceed 3,000,000 shares. The maximum period for exercise of an option may not be more than 10 years from the date of grant and the exercise price may not be less than the fair market value of the shares underlying the options on the date of grant; provided, however, nonqualified stock options not exceeding 10% of the options issuable under the 1999 Plan may be granted at an exercise price which is not less than 85% of the grant date fair market value. Options granted become exercisable at dates determined by the Stock Option Committee of the Board of Directors. No options can be granted under the 1999 Plan after March 4, 2009.

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

Pro forma information regarding net income and earnings per share is required by SFAS No. 123 and has been determined as if Chesapeake had accounted for its employee stock options under the fair value method of the statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1999, 1998, the Transition Period and fiscal 1997, respectively: interest rates (zero-coupon U.S. government issues with a

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

remaining life equal to the expected term of the options) of 5.88%, 5.20%, 6.45% and 6.74%; dividend yields of 0.0%, 0.0%, 0.9% and 0.9%; volatility factors of the expected market price of Chesapeake's common stock of .82, .96, .67 and .60; and weighted-average expected life of the options of five years.

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

Chesapeake's pro forma information follows:

	YEARS ENDED DECEMBER 31,		SIX MONTHS ENDED DECEMBER 31,	YEAR ENDED JUNE 30,
	1999	1998	1997	1997
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
Net Income (Loss)				
As reported.....	\$33,266	\$(933,854)	\$(31,574)	\$(183,377)
Pro forma.....	24,802	(948,014)	(35,084)	(190,160)
Basic Earnings (Loss) per Share				
As reported.....	\$ 0.17	\$ (9.97)	\$ (0.45)	\$ (2.79)
Pro forma.....	0.08	(10.12)	(0.50)	(2.89)
Diluted Earnings (Loss) per Share				
As reported.....	\$ 0.16	\$ (9.97)	\$ (0.45)	\$ (2.79)
Pro forma.....	0.08	(10.12)	(0.50)	(2.89)

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

	YEARS ENDED DECEMBER 31,				SIX MONTHS ENDED DECEMBER 31, 1997	
	1999		1998		OPTIONS	WEIGHTED-AVG EXERCISE PRICE
	OPTIONS	WEIGHTED-AVG EXERCISE PRICE	OPTIONS	WEIGHTED-AVG EXERCISE PRICE		
Outstanding beginning of period.....	11,260,375	\$1.86	8,330,381	\$5.49	7,903,659	\$ 7.09
Granted.....	3,210,493	1.11	14,580,063	2.78	3,362,207	8.29
Exercised.....	(622,120)	0.99	(108,761)	1.35	(219,349)	3.13
Cancelled/forfeited.....	(990,319)	1.87	(11,541,308)	5.64	(2,716,136)	13.87
Outstanding end of period.....	12,858,429	\$1.76	11,260,375	\$1.86	8,330,381	\$ 5.49
Exercisable end of period.....	5,040,302		3,535,126		3,838,869	
Shares authorized for future grants.....	2,560,687		1,761,359		4,585,973	
Fair value of options granted during the period.....		\$0.77		\$2.34		\$ 4.98

	YEAR ENDED JUNE 30, 1997	
	OPTIONS	WEIGHTED-AVG EXERCISE PRICE
Outstanding beginning of period.....	7,602,884	\$ 4.66
Granted.....	3,564,884	19.35
Exercised.....	(1,197,998)	1.95
Cancelled/forfeited.....	(2,066,111)	22.26
Outstanding end of period.....	7,903,659	\$ 7.09
Exercisable end of period.....	3,323,824	
Shares authorized for future grants.....	5,212,056	



Fair value of options granted during  
the period.....

\$ 7.51  
-----

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table summarizes information about stock options outstanding at December 31, 1999:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING @ 12/31/99	WEIGHTED-AVG. REMAINING CONTRACTUAL LIFE	WEIGHTED-AVG. EXERCISE PRICE	NUMBER EXERCISABLE @ 12/31/99	WEIGHTED-AVG. EXERCISE PRICE
\$ 0.08-\$ 0.78	897,982	4.02	\$ 0.62	897,982	\$ 0.62
\$ 0.94-\$ 0.94	2,538,000	9.04	0.94	42,500	0.94
\$ 1.00-\$ 1.00	31,250	9.01	1.00	31,250	1.00
\$ 1.13-\$ 1.13	6,679,130	8.68	1.13	1,627,898	1.13
\$ 1.33-\$ 2.25	1,320,204	4.34	2.00	1,320,204	2.00
\$ 2.38-\$10.69	1,263,300	6.74	4.75	1,005,405	4.97
\$14.25-\$14.25	27,000	7.32	14.25	13,500	14.25
\$17.67-\$17.67	938	0.08	17.67	938	17.67
\$25.88-\$25.88	625	0.08	25.88	625	25.88
\$30.63-\$30.63	100,000	6.77	30.63	100,000	30.63
	-----	----	-----	-----	-----
\$ 0.08-\$30.63	12,858,429	7.77	\$ 1.76	5,040,302	\$ 2.66
	=====			=====	

The exercise of certain stock options results in state and federal income tax benefits to Chesapeake related to the difference between the market price of the common stock at the date of disposition and the option price. During fiscal 1997, \$4,808,000 was recorded as an adjustment to additional paid-in capital and deferred income taxes with respect to such tax benefits. During 1999, 1998 and the Transition Period, Chesapeake did not recognize any such tax benefits.

## 10. FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

## Hedging Activities

Periodically Chesapeake utilizes hedging strategies to hedge the price of a portion of its future oil and gas production. These strategies include:

(i) swap arrangements that establish an index-related price above which Chesapeake pays the counterparty and below which Chesapeake is paid by the counterparty,

(ii) the purchase of index-related puts that provide for a "floor" price below which the counterparty pays Chesapeake the amount by which the price of the commodity is below the contracted floor,

(iii) the sale of index-related calls that provide for a "ceiling" price above which Chesapeake pays the counterparty the amount by which the price of the commodity is above the contracted ceiling, and

(iv) basis protection swaps, which are arrangements that guarantee the price differential of oil or gas from a specified delivery point or points.

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Results from commodity hedging transactions are reflected in oil and gas sales to the extent related to Chesapeake's oil and gas production. Chesapeake only enters into commodity hedging transactions related to Chesapeake's oil and gas production volumes or CEMI's physical purchase or sale commitments. Gains or losses on crude oil and natural gas hedging transactions are recognized as price adjustments in the months of related production.

As of December 31, 1999, Chesapeake had the following open natural gas swap arrangements designed to hedge a portion of Chesapeake's domestic gas production for periods after December 1999:

MONTHS -----	VOLUME (MMBTU) -----	NYMEX -- INDEX
		STRIKE PRICE (PER MMBTU) -----
April 2000.....	600,000	\$2.50
May 2000.....	620,000	2.50
June 2000.....	600,000	2.50
July 2000.....	620,000	2.50
August 2000.....	620,000	2.50
September 2000.....	600,000	2.50
October 2000.....	620,000	2.50

If the swap arrangements listed above had been settled on December 31, 1999, Chesapeake would have incurred a gain of \$0.5 million.

As of December 31, 1999, Chesapeake had no open oil swap arrangements.

Chesapeake has also closed transactions designed to hedge a portion of Chesapeake's domestic oil and natural gas production. The net unrecognized losses resulting from these transactions, \$3.9 million as of December 31, 1999, will be recognized as price adjustments in the months of related production. These hedging gains and losses are set forth below (\$ in thousands):

MONTH -----	HEDGING GAINS (LOSSES)		
	GAS -----	OIL -----	TOTAL -----
January 2000.....	\$ --	\$ (995)	\$ (995)
February 2000.....	--	(1,061)	(1,061)
March 2000.....	689	(851)	(162)
April 2000.....	71	(647)	(576)
May 2000.....	73	(668)	(595)
June 2000.....	71	(647)	(576)
July 2000.....	73	(231)	(158)
August 2000.....	73	--	73
September 2000.....	71	--	71
October 2000.....	73	--	73
	-----	-----	-----
	\$1,194	\$(5,100)	\$(3,906)
	=====	=====	=====

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Subsequent to December 31, 1999, Chesapeake entered into the following natural gas swap arrangements designed to hedge a portion of Chesapeake's domestic gas production for periods after December 1999:

MONTHS - - - - -	VOLUME (MMBTU) - - - - -	NYMEX -- INDEX STRIKE PRICE (PER MMBTU) - - - - -
April 2000.....	8,900,000	\$2.593
May 2000.....	3,410,000	2.737
June 2000.....	3,300,000	2.737
July 2000.....	3,410,000	2.741
August 2000.....	3,410,000	2.741
September 2000.....	2,100,000	2.696
October 2000.....	2,170,000	2.696

Subsequent to December 31, 1999, Chesapeake entered into the following crude oil swap arrangements designed to hedge a portion of Chesapeake's domestic crude oil production for periods after December 1999:

MONTHS - - - - -	MONTHLY VOLUME (BBLs) - - - - -	NYMEX -- INDEX STRIKE PRICE (PER BBL) - - - - -
March 2000.....	183,000	\$27.512
April 2000.....	89,000	27.251

In addition to commodity hedging transactions related to Chesapeake's oil and gas production, CEMI periodically enters into various hedging transactions designed to hedge against physical purchase and sale commitments made by CEMI. Gains or losses on these transactions are recorded as adjustments to oil and gas marketing sales in the consolidated statements of operations and are not considered by management to be material.

## Interest Rate Risk

Chesapeake also utilizes hedging strategies to manage fixed-interest rate exposure. Through the use of a swap arrangement, Chesapeake believes it can benefit from stable or falling interest rates and reduce its current interest expense. During 1999, Chesapeake's interest rate swap resulted in a \$2.0 million reduction of interest expense. The terms of the swap agreement are as follows:

MONTHS - - - - -	NOTIONAL AMOUNT - - - - -	FIXED RATE - - - - -	FLOATING RATE - - - - -
May 1998 -- April 2001	\$230,000,000	7%	Average of three-month Swiss Franc LIBOR, Deutsche Mark and Australian Dollar plus 300 basis points
May 2001 -- April 2008	\$230,000,000	7%	U.S. three-month LIBOR plus 300 basis points

If the floating rate is less than the fixed rate, the counterparty will pay Chesapeake accordingly. If the floating rate exceeds the fixed rate, Chesapeake will pay the counterparty. The interest rate swap agreement contains a "knock-out provision" whereby the agreement will terminate on or after May 1, 2001 if the average closing price for the previous twenty business days for the shares of Chesapeake's common stock is greater than or equal to \$7.50 per share. The agreement also provides for a maximum floating rate of 8.5% from May 2001 through April 2008.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

If the interest rate swap agreement had been settled on December 31, 1999, Chesapeake would have been required to pay the counterparty approximately \$16.7 million. However, because of the knock-out provision discussed above and the volatility of interest rates, Chesapeake does not believe that this worst-case scenario is a fair measure of the market value of the swap agreement and, therefore, would not pay this amount to cancel the transaction. Results from interest rate hedging transactions are reflected as adjustments to interest expense in the corresponding months covered by the swap agreement.

The table below presents principal cash flows and related weighted average interest rates by expected maturity dates. The fair value of the long-term debt has been estimated based on quoted market prices.

	DECEMBER 31, 1999 YEARS OF MATURITY						TOTAL	FAIR VALUE
	2000	2001	2002	2003	2004	THEREAFTER		
	-----						-----	-----
	(\$ IN MILLIONS)							
LIABILITIES:								
Long-term debt, including current portion --								
fixed rate.....	\$0.8	\$ 0.8	\$0.6	\$ --	\$150.0	\$770.0	\$922.2	\$838.7
Average interest rate.....	9.1%	9.1%	9.1%	--	7.9%	9.3%	9.1%	--
Long-term debt -- variable rate.....	\$ --	\$43.5	\$ --	\$ --	\$ --	\$ --	\$ 43.5	\$ 43.5
Average interest rate.....	--	9.75%	--	--	--	--	9.75%	--

## Concentration of Credit Risk

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

## Fair Value of Financial Instruments

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

The carrying values of items comprising current assets and current liabilities approximate fair values due to the short-term maturities of these instruments. Chesapeake estimates the fair value of its long-term (including current maturities), fixed-rate debt using primarily quoted market prices. Chesapeake's carrying amount for such debt at December 31, 1999 and 1998 was \$921.4 million and \$919.1 million, respectively, compared to approximate fair values of \$838.7 million and \$654.7 million, respectively. The carrying value of other long-term debt approximates its fair value as interest rates are primarily variable, based on prevailing market rates. Chesapeake estimates the fair value of its convertible preferred stock, which was issued in April 1998, using quoted market prices. Chesapeake's carrying amount for such preferred stock at December 31, 1999 and 1998 was \$229.8 million and \$230.0 million, compared to an approximate fair value of \$119.0 million and \$48.9 million, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 11. DISCLOSURES ABOUT OIL AND GAS PRODUCING ACTIVITIES

## Net Capitalized Costs

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

DECEMBER 31, 1999	U.S.	CANADA	COMBINED
-----	-----	-----	-----
	(\$ IN THOUSANDS)		
Oil and gas properties:			
Proved.....	\$ 2,193,492	\$121,856	\$ 2,315,348
Unproved.....	36,225	3,783	40,008
Total.....	2,229,717	125,639	2,355,356
Less accumulated depreciation, depletion and amortization.....	(1,645,185)	(25,357)	(1,670,542)
Net capitalized costs.....	\$ 584,532	\$100,282	\$ 684,814
	=====	=====	=====

DECEMBER 31, 1998	U.S.	CANADA	COMBINED
-----	-----	-----	-----
	(\$ IN THOUSANDS)		
Oil and gas properties:			
Proved.....	\$ 2,060,076	\$ 82,867	\$ 2,142,943
Unproved.....	44,780	7,907	52,687
Total.....	2,104,856	90,774	2,195,630
Less accumulated depreciation, depletion and amortization.....	(1,556,284)	(17,998)	(1,574,282)
Net capitalized costs.....	\$ 548,572	\$ 72,776	\$ 621,348
	=====	=====	=====

Unproved properties not subject to amortization at December 31, 1999 and 1998 consisted mainly of lease acquisition costs. Chesapeake capitalized approximately \$3.5 million, \$6.5 million, \$5.1 million and \$12.9 million of interest during 1999, 1998, the Transition Period and fiscal 1997, respectively, on significant investments in unproved properties that were not yet included in the amortization base of the full-cost pool. Chesapeake will continue to evaluate its unevaluated properties; however, the timing of the ultimate evaluation and disposition of the properties has not been determined.

## Costs Incurred in Oil and Gas Acquisition, Exploration and Development

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

YEAR ENDED DECEMBER 31, 1999	U.S.	CANADA	COMBINED
-----	-----	-----	-----
	(\$ IN THOUSANDS)		
Development and leasehold costs.....	\$ 95,329	\$31,536	\$126,865
Exploration costs.....	23,651	42	23,693
Acquisition costs.....	47,993	4,100	52,093
Sales of oil and gas properties.....	(44,822)	(813)	(45,635)
Capitalized internal costs.....	2,710	--	2,710
Total.....	\$124,861	\$34,865	\$159,726
	=====	=====	=====

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEAR ENDED DECEMBER 31, 1998	U.S.	CANADA	COMBINED
-----			
(\$ IN THOUSANDS)			
Development and leasehold costs.....	\$169,491	\$ 7,119	\$176,610
Exploration costs.....	63,245	5,427	68,672
Acquisition costs.....	662,104	78,176	740,280
Sales of oil and gas properties.....	(15,712)	--	(15,712)
Capitalized internal costs.....	5,262	--	5,262
Total.....	\$884,390	\$90,722	\$975,112
	=====	=====	=====

SIX MONTHS ENDED DECEMBER 31, 1997	U.S.	CANADA	COMBINED
-----			
(\$ IN THOUSANDS)			
Development and leasehold costs.....	\$144,283	\$ --	\$144,283
Exploration costs.....	40,534	--	40,534
Acquisition costs.....	39,245	--	39,245
Capitalized internal costs.....	2,435	--	2,435
Total.....	\$226,497	\$ --	\$226,497
	=====	=====	=====

YEAR ENDED JUNE 30, 1997	U.S.	CANADA	COMBINED
-----			
(\$ IN THOUSANDS)			
Development and leasehold costs.....	\$324,989	\$ --	\$324,989
Exploration costs.....	136,473	--	136,473
Capitalized internal costs.....	3,905	--	3,905
Total.....	\$465,367	\$ --	\$465,367
	=====	=====	=====

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

Chesapeake's results of operations from oil and gas producing activities are presented below for 1999, 1998, the Transition Period and fiscal 1997. The following table includes revenues and expenses associated directly with Chesapeake's oil and gas producing activities. It does not include any allocation of Chesapeake's interest costs and, therefore, is not necessarily indicative of the contribution to consolidated net operating results of Chesapeake's oil and gas operations.

YEAR ENDED DECEMBER 31, 1999	U.S.	CANADA	COMBINED
-----			
(\$ IN THOUSANDS)			
Oil and gas sales.....	\$ 266,468	\$ 13,977	\$ 280,445
Production expenses.....	(44,165)	(2,133)	(46,298)
Production taxes.....	(13,264)	--	(13,264)
Depletion and depreciation.....	(88,901)	(6,143)	(95,044)
Imputed income tax (provision) benefit(a).....	(45,052)	(2,565)	(47,617)
Results of operations from oil and gas producing activities.....	\$ 75,086	\$ 3,136	\$ 78,222
	=====	=====	=====

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEAR ENDED DECEMBER 31, 1998	U.S.	CANADA	COMBINED
-----			
(\$ IN THOUSANDS)			
Oil and gas sales.....	\$ 248,909	\$ 7,978	\$ 256,887
Production expenses.....	(49,368)	(1,834)	(51,202)
Production taxes.....	(8,295)	--	(8,295)
Impairment of oil and gas properties.....	(810,610)	(15,390)	(826,000)
Depletion and depreciation.....	(143,283)	(3,361)	(146,644)
Imputed income tax (provision) benefit(a).....	285,981	5,673	291,654
-----			
Results of operations from oil and gas producing activities.....	\$(476,666)	\$ (6,934)	\$(483,600)
=====			
SIX MONTHS ENDED DECEMBER 31, 1997	U.S.	CANADA	COMBINED
-----			
(\$ IN THOUSANDS)			
Oil and gas sales.....	\$ 95,657	\$ --	\$ 95,657
Production expenses.....	(7,560)	--	(7,560)
Production taxes.....	(2,534)	--	(2,534)
Impairment of oil and gas properties.....	(110,000)	--	(110,000)
Depletion and depreciation.....	(60,408)	--	(60,408)
Imputed income tax (provision) benefit(a).....	31,817	--	31,817
-----			
Results of operations from oil and gas producing activities.....	\$ (53,028)	\$ --	\$ (53,028)
=====			
YEAR ENDED JUNE 30, 1997	U.S.	CANADA	COMBINED
-----			
(\$ IN THOUSANDS)			
Oil and gas sales.....	\$ 192,920	\$ --	\$ 192,920
Production expenses.....	(11,445)	--	(11,445)
Production taxes.....	(3,662)	--	(3,662)
Impairment of oil and gas properties.....	(236,000)	--	(236,000)
Depletion and depreciation.....	(103,264)	--	(103,264)
Imputed income tax (provision) benefit(a).....	60,544	--	60,544
-----			
Results of operations from oil and gas producing activities.....	\$(100,907)	\$ --	\$(100,907)
=====			

(a) The imputed income tax provision is hypothetical (at the statutory rate) and determined without regard to Chesapeake's deduction for general and administrative expenses, interest costs and other income tax credits and deductions, nor whether the hypothetical tax benefits will be realized.

Capitalized costs, less accumulated amortization and related deferred income taxes, cannot exceed an amount equal to the sum of the present value (discounted at 10%) of estimated future net revenues less estimated future expenditures to be incurred in developing and producing the proved reserves, less any related income tax effects. At December 31, 1998 and 1997 and June 30, 1997, capitalized costs of oil and gas properties exceeded the estimated present value of future net revenues for Chesapeake's proved reserves, net of related income tax considerations, resulting in writedowns in the carrying value of oil and gas properties of \$826 million, \$110 million and \$236 million, respectively.

#### Oil and Gas Reserve Quantities (unaudited)

The reserve information presented below is based upon reports prepared by independent petroleum engineers and Chesapeake's petroleum engineers.

- As of December 31, 1999, Williamson Petroleum Consultants, Inc. ("Williamson"), Ryder Scott Company L.P. ("Ryder Scott"), and Chesapeake's internal reservoir engineers evaluated 50%, 16%,



## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

and 34% of Chesapeake's combined discounted future net revenues from Chesapeake's estimated proved reserves, respectively.

- As of December 31, 1998, Williamson, Ryder Scott, H.J. Gruy and Associates, Inc. and Chesapeake's internal reservoir engineers evaluated 63%, 12%, 1% and 24% of Chesapeake's combined discounted future net revenues from Chesapeake's estimated proved reserves, respectively.
- As of December 31, 1997, Williamson, Porter Engineering Associates, Netherland, Sewell & Associates, Inc. and internal reservoir engineers evaluated approximately 53%, 42%, 3% and 2% of Chesapeake's combined discounted future net revenues from Chesapeake's estimated proved reserves, respectively.
- As of June 30, 1997, the reserves evaluated by Williamson constituted approximately 41% of Chesapeake's combined discounted future net revenues from Chesapeake's estimated proved reserves, with the remaining reserves being evaluated internally. The reserves evaluated internally in fiscal 1997 were subsequently evaluated by Williamson with a variance of approximately 4% of total proved reserves.

The information is presented in accordance with regulations prescribed by the Securities and Exchange Commission. Chesapeake emphasizes that reserve estimates are inherently imprecise. Chesapeake's reserve estimates were generally based upon extrapolation of historical production trends, analogy to similar properties and volumetric calculations. Accordingly, these estimates are expected to change, and such changes could be material and occur in the near term as future information becomes available.

Proved oil and gas reserves represent the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed oil and gas reserves are those expected to be recovered through existing wells with existing equipment and operating methods. As of December 31, 1997 and June 30, 1997, all of Chesapeake's oil and gas reserves were located in the United States.

Presented below is a summary of changes in estimated reserves of Chesapeake for 1999, 1998, the Transition Period and fiscal 1997:

	U.S.		CANADA		COMBINED	
	OIL (MBbl)	GAS (MMcf)	OIL (MBbl)	GAS (MMcf)	OIL (MBbl)	GAS (MMcf)
DECEMBER 31, 1999						
Proved reserves, beginning of period.....	22,560	724,018	33	231,773	22,593	955,791
Extensions, discoveries and other additions.....	4,593	158,801	--	37,835	4,593	196,636
Revisions of previous estimates.....	3,404	59,904	--	(98,571)	3,404	(38,667)
Production.....	(4,147)	(96,873)	--	(11,737)	(4,147)	(108,610)
Sale of reserves-in-place.....	(4,371)	(31,616)	(33)	(796)	(4,404)	(32,412)
Purchase of reserves-in-place.....	2,756	64,350	--	19,738	2,756	84,088
Proved reserves, end of period.....	24,795	878,584	--	178,242	24,795	1,056,826
Proved developed reserves:						
Beginning of period.....	18,003	552,953	33	105,990	18,036	658,943
End of period.....	17,750	627,120	--	136,203	17,750	763,323

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

	U.S.		CANADA		COMBINED	
	OIL (MBbl)	GAS (MMcf)	OIL (MBbl)	GAS (MMcf)	OIL (MBbl)	GAS (MMcf)
DECEMBER 31, 1998						
Proved reserves, beginning of period.....	8,226	339,118	--	--	18,226	339,118
Extensions, discoveries and other additions.....	3,448	90,879	--	--	3,448	90,879
Revisions of previous estimates.....	4,082	(60,477)	--	--	(4,082)	(60,477)
Production.....	5,975	(86,681)	(1)	(7,740)	(5,976)	(94,421)
Sale of reserves-in-place.....	(30)	(3,515)	--	--	(30)	(3,515)
Purchase of reserves-in-place.....	10,973	444,694	34	239,513	11,007	684,207
Proved reserves, end of period.....	22,560	724,018	33	231,773	22,593	955,791
Proved developed reserves:						
Beginning of period.....	10,087	178,082	--	--	10,087	178,082
End of period.....	18,003	552,953	33	105,990	18,036	658,943

	U.S.		CANADA		COMBINED	
	OIL (MBbl)	GAS (MMcf)	OIL (MBbl)	GAS (MMcf)	OIL (MBbl)	GAS (MMcf)
DECEMBER 31, 1997						
Proved reserves, beginning of period.....	17,373	298,766	--	--	17,373	298,766
Extensions, discoveries and other additions.....	5,573	68,813	--	--	5,573	68,813
Revisions of previous estimates.....	(3,428)	(24,189)	--	--	(3,428)	(24,189)
Production.....	(1,857)	(27,327)	--	--	(1,857)	(27,327)
Sale of reserves-in-place.....	--	--	--	--	--	--
Purchase of reserves-in-place.....	565	23,055	--	--	565	23,055
Proved reserves, end of period.....	18,226	339,118	--	--	18,226	339,118
Proved developed reserves:						
Beginning of period.....	7,324	151,879	--	--	7,324	151,879
End of period.....	10,087	178,082	--	--	10,087	178,082

	U.S.		CANADA		COMBINED	
	OIL (MBbl)	GAS (MMcf)	OIL (MBbl)	GAS (MMcf)	OIL (MBbl)	GAS (MMcf)
JUNE 30, 1997						
Proved reserves, beginning of period.....	12,258	351,224	--	--	12,258	351,224
Extensions, discoveries and other additions.....	13,874	147,485	--	--	13,874	147,485
Revisions of previous estimates.....	(5,989)	(137,938)	--	--	(5,989)	(137,938)
Production.....	(2,770)	(62,005)	--	--	(2,770)	(62,005)
Sale of reserves-in-place.....	--	--	--	--	--	--
Purchase of reserves-in-place.....	--	--	--	--	--	--
Proved reserves, end of period.....	17,373	298,766	--	--	17,373	298,766
Proved developed reserves:						
Beginning of period.....	3,648	144,721	--	--	3,648	144,721
End of period.....	7,324	151,879	--	--	7,324	151,879

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

During 1999, Chesapeake acquired approximately 101 Bcfe of proved reserves through purchases of oil and gas properties for consideration of \$52 million. Chesapeake also sold 59 Bcfe of proved reserves for consideration of approximately \$46 million. During 1999, Chesapeake recorded upward revisions of 80 Bcfe to the December 31, 1998 estimates of its U.S. reserves, and downward revisions of 99 Bcfe to the December 31, 1998 estimates of its Canadian reserves, for a net Company wide revision of 19 Bcfe, or approximately 1.7%. The upward revisions to its U.S. reserves were caused by higher oil and gas prices at December 31, 1999, and actual performance in excess of predicted performance. Higher prices extend the economic lives of the underlying oil and gas properties and thereby increase the estimated future reserves. The downward revisions to its Canadian reserves were caused by a reduction of Chesapeake's proved undeveloped locations and an increase in projected transportation and operating costs in Canada, which decreased the economic lives of the underlying properties.

During 1998, Chesapeake acquired approximately 750 Bcfe of proved reserves through mergers or through purchases of oil and gas properties. The total consideration given for the acquisitions was 30.8 million shares of Company common stock, \$280 million of cash, the assumption of \$205 million of debt, and the incurrence of approximately \$20 million of other acquisition related costs. Also during 1998, Chesapeake recorded downward revisions to the December 31, 1997 estimates of approximately 4,082 MBbl and 60,477 MMcf, or approximately 85 Bcfe. These reserve revisions were primarily attributable to lower oil and gas prices at December 31, 1998. The weighted average prices used to value Chesapeake's reserves at December 31, 1998 were \$10.48 per barrel of oil and \$1.68 per Mcf of gas, as compared to the prices used at December 31, 1997 of \$17.62 per barrel of oil and \$2.29 per Mcf of gas.

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

On December 16, 1997, Chesapeake acquired AnSon Production Corporation, a privately owned oil and gas producer based in Oklahoma City. Consideration for this acquisition was approximately \$43 million. Chesapeake estimates that it acquired approximately 26.4 Bcfe in connection with this acquisition.

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

## Standardized Measure of Discounted Future Net Cash Flows (unaudited)

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

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

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

DECEMBER 31, 1999	U.S.	CANADA	COMBINED
	(\$ IN THOUSANDS)		
Future cash inflows(a).....	\$2,555,241	\$ 437,928	\$2,993,169
Future production costs.....	(671,431)	(195,464)	(866,895)
Future development costs.....	(209,921)	(20,950)	(230,871)
Future income tax provision.....	(219,866)	(29,410)	(249,276)
Net future cash flows.....	1,454,023	192,104	1,646,127
Less effect of a 10% discount factor.....	(545,125)	(94,390)	(639,515)
Standardized measure of discounted future net cash flows.....	\$ 908,898	\$ 97,714	\$1,006,612
Discounted (at 10%) future net cash flows before income taxes.....	\$ 991,748	\$ 97,748	\$1,089,496
DECEMBER 31, 1998	U.S.	CANADA	COMBINED
	(\$ IN THOUSANDS)		
Future cash inflows (b).....	\$1,374,280	\$ 474,143	\$1,848,423
Future production costs.....	(432,876)	(52,493)	(485,369)
Future development costs.....	(124,717)	(29,634)	(154,351)
Future income tax provision.....	(6,464)	(143,747)	(150,211)
Net future cash flows.....	810,223	248,269	1,058,492
Less effect of a 10% discount factor.....	(303,096)	(132,281)	(435,377)
Standardized measure of discounted future net cash flows.....	\$ 507,127	\$ 115,988	\$ 623,115
Discounted (at 10%) future net cash flows before income taxes.....	\$ 504,148	\$ 156,843	\$ 660,991
DECEMBER 31, 1997	U.S.	CANADA	COMBINED
	(\$ IN THOUSANDS)		
Future cash inflows(c).....	\$1,100,807	\$ --	\$1,100,807
Future production costs.....	(223,030)	--	(223,030)
Future development costs.....	(158,387)	--	(158,387)
Future income tax provision.....	(108,027)	--	(108,027)
Net future cash flows.....	611,363	--	611,363
Less effect of a 10% discount factor.....	(181,253)	--	(181,253)
Standardized measure of discounted future net cash flows.....	\$ 430,110	\$ --	\$ 430,110
Discounted (at 10%) future net cash flows before income taxes.....	\$ 466,509	\$ --	\$ 466,509

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

JUNE 30, 1997 -----	U.S.	CANADA	COMBINED
	----- (\$ IN THOUSANDS) -----		
Future cash inflows(d).....	\$ 954,839	\$ --	\$ 954,839
Future production costs.....	(190,604)	--	(190,604)
Future development costs.....	(152,281)	--	(152,281)
Future income tax provision.....	(104,183)	--	(104,183)
	-----		
Net future cash flows.....	507,771	--	507,771
Less effect of a 10% discount factor.....	(92,273)	--	(92,273)
	-----		
Standardized measure of discounted future net cash flows.....	\$ 415,498	\$ --	\$ 415,498
	=====	=====	=====
Discounted (at 10%) future net cash flows before income taxes.....	\$ 437,386	\$ --	\$ 437,386
	=====	=====	=====

- 
- (a) Calculated using weighted average prices of \$24.72 per barrel of oil and \$2.25 per Mcf of gas.
- (b) Calculated using weighted average prices of \$10.48 per barrel of oil and \$1.68 per Mcf of gas.
- (c) Calculated using weighted average prices of \$17.62 per barrel of oil and \$2.29 per Mcf of gas.
- (d) Calculated using weighted average prices of \$18.38 per barrel of oil and \$2.12 per Mcf of gas.

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

DECEMBER 31, 1999 -----	U.S.	CANADA	COMBINED
	----- (\$ IN THOUSANDS) -----		
Standardized measure, beginning of period.....	\$ 507,127	\$115,988	\$ 623,115
Sales of oil and gas produced, net of production costs.....	(209,039)	(11,844)	(220,883)
Net changes in prices and production costs.....	320,123	(55,156)	264,967
Extensions and discoveries, net of production and development costs.....	200,787	14,333	215,120
Changes in future development costs.....	(15,011)	20,679	5,668
Development costs incurred during the period that reduced future development costs.....	14,114	1,985	16,099
Revisions of previous quantity estimates.....	88,250	(49,034)	39,216
Purchase of reserves-in-place.....	66,895	18,476	85,371
Sales of reserves-in-place.....	(25,838)	(920)	(26,758)
Accretion of discount.....	50,415	15,684	66,099
Net change in income taxes.....	(85,828)	40,821	(45,007)
Changes in production rates and other.....	(3,097)	(13,298)	(16,395)
	-----		
Standardized measure, end of period.....	\$ 908,898	\$ 97,714	\$1,006,612
	=====	=====	=====

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

DECEMBER 31, 1998	U.S.	CANADA	COMBINED
-----	-----	-----	-----
	(\$ IN THOUSANDS)		
Standardized measure, beginning of period.....	\$ 430,110	\$ --	\$ 430,110
Sales of oil and gas produced, net of production costs.....	(191,246)	(6,144)	(197,390)
Net changes in prices and production costs.....	(189,817)	--	(189,817)
Extensions and discoveries, net of production and development costs.....	85,464	--	85,464
Changes in future development costs.....	72,279	--	72,279
Development costs incurred during the period that reduced future development costs.....	28,191	--	28,191
Revisions of previous quantity estimates.....	(64,770)	--	(64,770)
Purchase of reserves-in-place.....	288,694	164,821	453,515
Sales of reserves-in-place.....	(3,079)	--	(3,079)
Accretion of discount.....	46,651	--	46,651
Net change in income taxes.....	39,377	(40,855)	(1,478)
Changes in production rates and other.....	(34,727)	(1,834)	(36,561)
	-----	-----	-----
Standardized measure, end of period.....	\$ 507,127	\$115,988	\$ 623,115
	=====	=====	=====

DECEMBER 31, 1997	U.S.	CANADA	COMBINED
-----	-----	-----	-----
	(\$ IN THOUSANDS)		
Standardized measure, beginning of period.....	\$415,498	\$--	\$415,498
Sales of oil and gas produced, net of production costs.....	(85,563)	--	(85,563)
Net changes in prices and production costs.....	26,106	--	26,106
Extensions and discoveries, net of production and development costs.....	92,597	--	92,597
Changes in future development costs.....	(7,422)	--	(7,422)
Development costs incurred during the period that reduced future development costs.....	47,703	--	47,703
Revisions of previous quantity estimates.....	(62,655)	--	(62,655)
Purchase of reserves-in-place.....	25,236	--	25,236
Sales of reserves-in-place.....	--	--	--
Accretion of discount.....	43,739	--	43,739
Net change in income taxes.....	(14,510)	--	(14,510)
Changes in production rates and other.....	(50,619)	--	(50,619)
	-----	-----	-----
Standardized measure, end of period.....	\$430,110	\$--	\$430,110
	=====	===	=====

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

JUNE 30, 1997 -----	U.S.	CANADA	COMBINED
	----- (\$ IN THOUSANDS)		
Standardized measure, beginning of period.....	\$ 461,411	\$--	\$ 461,411
Sales of oil and gas produced, net of production costs.....	(177,813)	--	(177,813)
Net changes in prices and production costs.....	(99,234)	--	(99,234)
Extensions and discoveries, net of production and development costs.....	287,068	--	287,068
Changes in future development costs.....	(12,831)	--	(12,831)
Development costs incurred during the period that reduced future development costs.....	46,888	--	46,888
Revisions of previous quantity estimates.....	(199,738)	--	(199,738)
Purchase of reserves-in-place.....	--	--	--
Sales of reserves-in-place.....	--	--	--
Accretion of discount.....	54,702	--	54,702
Net change in income taxes.....	63,719	--	63,719
Changes in production rates and other.....	(8,674)	--	(8,674)
Standardized measure, end of period.....	\$ 415,498 =====	\$-- ===	\$ 415,498 =====

## 12. TRANSITION PERIOD COMPARATIVE DATA

The following table presents certain financial information for the twelve months ended December 31, 1998 and 1997, and the six months ended December 31, 1997 and 1996, respectively:

	TWELVE MONTHS ENDED DECEMBER 31,		SIX MONTHS ENDED DECEMBER 31,	
	1998	1997	1997	1996
	----- (UNAUDITED)		----- (UNAUDITED)	
	(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)			
Revenues.....	\$ 377,946 =====	\$ 302,804 =====	\$153,898 =====	\$120,186 =====
Gross profit (loss)(a).....	\$(856,197) =====	\$(309,041) =====	\$(93,092) =====	\$ 42,946 =====
Income (loss) before income taxes and extraordinary item.....	\$(920,520)	\$(251,150)	\$(31,574)	\$ 39,246
Income taxes.....	--	(17,898)	--	14,325
Income (loss) before extraordinary item.....	(920,520)	(233,252)	(31,574)	24,921
Extraordinary item.....	(13,334)	(177)	--	(6,443)
Net income (loss).....	\$ (933,854) =====	\$ (233,429) =====	\$ (31,574) =====	\$ 18,478 =====
Earnings per share -- basic				
Income (loss) before extraordinary item.....	\$ (9.83)	\$ (3.30)	\$ (0.45)	\$ 0.40
Extraordinary item.....	(0.14)	--	--	(0.10)
Net income (loss).....	\$ (9.97) =====	\$ (3.30) =====	\$ (0.45) =====	\$ 0.30 =====
Earnings per share -- assuming dilution				
Income (loss) before extraordinary item.....	\$ (9.83)	\$ (3.30)	\$ (0.45)	\$ 0.38
Extraordinary item.....	(0.14)	--	--	(0.10)
Net income (loss).....	\$ (9.97) =====	\$ (3.30) =====	\$ (0.45) =====	\$ 0.28 =====
Weighted average common shares outstanding (in 000's)				
Basic.....	94,911 =====	70,672 =====	70,835 =====	61,985 =====
Assuming dilution.....	94,911 =====	70,672 =====	70,835 =====	66,300 =====

(a) Total revenue less total operating costs.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 13. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized unaudited quarterly financial data for 1999 and 1998 are as follows (\$ in thousands except per share data):

	QUARTERS ENDED			
	MARCH 31, 1999	JUNE 30, 1999	SEPTEMBER 30, 1999	DECEMBER 31, 1999
Net sales.....	\$ 65,677	\$80,892	\$102,140	\$106,237
Gross profit (loss)(a).....	7,067	25,765	36,498	38,190
Net income (loss).....	(11,950)	8,147	18,115	18,954
Net income (loss) per share:				
Basic.....	(0.17)	0.04	0.14	0.15
Diluted.....	(0.17)	0.04	0.13	0.14

	QUARTERS ENDED			
	MARCH 31, 1998	JUNE 30, 1998	SEPTEMBER 30, 1998	DECEMBER 31, 1998
Net sales.....	\$ 76,765	\$ 109,310	\$106,338	\$ 85,533
Gross profit (loss)(a).....	(246,036)	(218,645)	13,650	(405,166)
Net income (loss) before extraordinary item.....	(256,500)	(234,739)	(4,149)	(425,132)
Net income (loss).....	(256,500)	(248,073)	(4,149)	(425,132)
Net income (loss) per share before extraordinary item:				
Basic.....	(3.19)	(2.29)	(0.08)	(4.44)
Diluted.....	(3.19)	(2.29)	(0.08)	(4.44)

(a) Total revenue less total operating costs.

Capitalized costs, less accumulated amortization and related deferred income taxes, cannot exceed an amount equal to the sum of the present value of estimated future net revenues less estimated future expenditures to be incurred in developing and producing the proved reserves, less any related income tax effects. At December 31, 1998, June 30, 1998 and March 31, 1998, capitalized costs of oil and gas properties exceeded the estimated present value of future net revenues for Chesapeake's proved reserves, net of related income tax considerations, resulting in writedowns in the carrying value of oil and gas properties of \$360 million, \$216 million and \$250 million, respectively.

During the fourth quarter of 1998, Chesapeake incurred a \$55 million impairment charge to adjust certain non-oil and gas producing assets to their estimated fair values. Of this amount, \$30 million related to Chesapeake's investment in preferred stock of Gothic Energy Corporation, and the remainder was related to certain of Chesapeake's gas processing and transportation assets located in Louisiana.

## 14. ACQUISITIONS

During 1998, Chesapeake acquired approximately 750 Bcfe of proved reserves through mergers or through purchases of oil and gas properties. The total consideration given for the acquisitions was \$280 million of cash, 30.8 million shares of Company common stock, the assumption of \$205 million of debt, and the incurrence of approximately \$20 million of other acquisition related costs.

In March 1998, Chesapeake acquired Hugoton Energy Corporation ("Hugoton") pursuant to a merger by issuing 25.8 million shares of Chesapeake's common stock in exchange for 100% of Hugoton's



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

common stock. The acquisition of Hugoton was accounted for using the purchase method as of March 1, 1998, and the results of operations of Hugoton have been included since that date.

The following unaudited pro forma information has been prepared assuming Hugoton had been acquired as of the beginning of the periods presented. The pro forma information is presented for informational purposes only and is not necessarily indicative of what would have occurred if the acquisition had been made as of those dates. In addition, the pro forma information is not intended to be a projection of future results and does not reflect the efficiencies expected to result from the integration of Hugoton.

## Pro Forma Information (Unaudited)

	YEARS ENDED DECEMBER 31,	
	1998	1997
	-----	
	(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)	
Revenues.....	\$ 387,638	\$ 379,546
Loss before extraordinary item.....	(921,969)	(215,350)
Net loss.....	(935,303)	(215,527)
Loss before extraordinary item per common share.....	(9.41)	(2.23)
Net loss per common share.....	(9.55)	(2.23)

Chesapeake acquired other businesses and oil and gas properties during 1999 and 1998. The results of operations of each of these businesses and properties, taken individually, were not material in relation to Chesapeake's consolidated results of operations.

## 15. SUBSEQUENT EVENTS

In January and February 2000, Chesapeake engaged in five separate transactions with two institutional investors in which Chesapeake exchanged a total of 8.8 million shares of common stock (both newly issued and treasury shares) for 625,000 shares of its issued and outstanding preferred stock with a liquidation value of \$31.3 million plus dividends in arrears of \$2.9 million. All preferred shares acquired in these transactions were cancelled and retired and will have the status of authorized but unissued shares of undesignated preferred stock.

In connection with a potential restructuring of Gothic Energy Corporation ("Gothic"), Chesapeake and Gothic agreed in March 2000 to substantially revise their joint venture originally entered into in March 1998. In addition, Chesapeake granted Gothic an option to redeem the preferred and common shares of Gothic held by Chesapeake in exchange for rights to certain undeveloped leasehold interests covered by the joint venture agreement. The terms of the agreement are subject to certain conditions, including the approval by certain of Gothic's creditors. Significant terms of the proposed agreement are as follows:

- the joint venture is extended for three years to April 30, 2006,
- Chesapeake is granted a right of first refusal on any property disposition by Gothic,
- Chesapeake becomes operator of 28 wells currently operated by Gothic,
- Chesapeake will have the first right to drill, complete and operate wells in certain areas covered by the joint venture,
- Chesapeake granted Gothic the option to redeem its investment in \$50 million liquidation amount of Gothic Series B preferred stock, including dividends in arrears, and 2.4 million shares of Gothic common stock, for a permanent assignment to Chesapeake of certain undeveloped leasehold interests that were originally subject to a reassignment obligation to Gothic.

SCHEDULE II  
CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS  
(\$ IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS		DEDUCTIONS	BALANCE AT END OF PERIOD
		CHARGED TO EXPENSE	CHARGED TO OTHER ACCOUNTS		
December 31, 1999:					
Allowance for doubtful accounts.....	\$ 3,209	\$ 9	\$ --	\$ --	\$ 3,218
Valuation allowance for deferred tax assets.....	\$458,903	\$ --	\$(5,931)(a)	\$10,956	\$442,016
December 31, 1998:					
Allowance for doubtful accounts.....	\$ 691	\$ 1,589	\$ 1,000	\$ 71	\$ 3,209
Valuation allowance for deferred tax assets.....	\$ 77,934	\$380,969	\$ --	\$ --	\$458,903
December 31, 1997:					
Allowance for doubtful accounts.....	\$ 387	\$ 40	\$ 264	\$ --	\$ 691
Valuation allowance for deferred tax assets.....	\$ 64,116	\$ 13,818	\$ --	\$ --	\$ 77,934
June 30, 1997:					
Allowance for doubtful accounts.....	\$ 340	\$ 299	\$ --	\$ 252	\$ 387
Valuation allowance for deferred tax assets.....	\$ --	\$ 64,116	\$ --	\$ --	\$ 64,116

(a) At December 31, 1998, \$5.7 million of the valuation allowance was related to Chesapeake's Canadian deferred tax assets. During 1999, this valuation allowance was eliminated as part of a purchase price reallocation related to a 1998 acquisition.

## GOTHIC ENERGY CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET  
(IN THOUSANDS, EXCEPT PAR VALUE)

	JUNE 30, 2000	DECEMBER 31, 1999
	----- (UNAUDITED)	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 5,317	\$ 2,583
Natural gas and oil receivables.....	12,486	8,163
Receivable from officers and employees.....	110	77
Other.....	878	624
	-----	-----
TOTAL CURRENT ASSETS.....	18,791	11,447
PROPERTY AND EQUIPMENT:		
Natural gas and oil properties on full cost method:		
Properties being amortized.....	269,380	258,818
Unproved properties not subject to amortization.....	5,911	5,473
Equipment, furniture and fixtures.....	6,311	6,123
Accumulated depreciation, depletion and amortization.....	(64,005)	(54,170)
	-----	-----
PROPERTY AND EQUIPMENT, NET.....	217,597	216,244
OTHER ASSETS, NET.....	9,738	10,706
	-----	-----
TOTAL ASSETS.....	\$ 246,126	\$ 238,397
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable trade.....	\$ 3,828	\$ 4,630
Revenues payable.....	7,931	6,047
Accrued interest expense.....	4,477	4,357
Other accrued liabilities.....	368	893
Current portion long-term debt.....	14,723	--
	-----	-----
TOTAL CURRENT LIABILITIES.....	31,327	15,927
LONG-TERM DEBT, NET.....	315,958	319,857
GAS IMBALANCE LIABILITY.....	3,274	3,648
STOCKHOLDERS' EQUITY (DEFICIT):		
Series B Preferred Stock, Par Value \$.05, authorized 165,000 shares; 62,827 and 59,216 shares issued and outstanding.....	50,252	45,612
Common stock, par value \$.01, authorized 100,000,000 shares; 18,685,765 shares issued and outstanding.....	187	187
Additional paid in capital.....	42,987	42,987
Accumulated deficit.....	(197,859)	(189,821)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY (DEFICIT).....	(104,433)	(101,035)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT).....	\$ 246,126	\$ 238,397
	=====	=====

See accompanying notes

## GOTHIC ENERGY CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF OPERATIONS  
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)  
 (UNAUDITED)

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2000	1999
REVENUES:		
Natural gas and oil sales.....	\$ 31,863	\$ 23,417
Well operations.....	1,356	1,259
	-----	-----
TOTAL REVENUES.....	33,219	24,676
COSTS AND EXPENSES:		
Lease operating expenses.....	4,443	4,601
Depletion, depreciation and amortization.....	9,975	10,652
General and administrative expense.....	1,976	1,984
Investment banking and related fees.....	785	--
	-----	-----
Operating income.....	16,040	7,439
Interest expense and amortization of debt issuance costs....	(19,490)	(18,727)
Interest and other income.....	50	817
	-----	-----
NET LOSS.....	(3,400)	(10,471)
PREFERRED DIVIDEND (\$60.00 AND \$59.84 PER PREFERRED SHARE).....	3,715	3,291
PREFERRED DIVIDEND -- AMORTIZATION OF PREFERRED DISCOUNT....	923	923
	-----	-----
NET LOSS AVAILABLE FOR COMMON SHARES.....	\$ (8,038)	\$(14,685)
	=====	=====
NET LOSS PER COMMON SHARE, BASIC AND DILUTED.....	\$ (.43)	\$ (.90)
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING, BASIC AND DILUTED.....	18,686	16,286
	=====	=====

See accompanying notes

## GOTHIC ENERGY CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF OPERATIONS  
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)  
 (UNAUDITED)

	FOR THE THREE MONTHS ENDED JUNE 30,	
	2000	1999
REVENUES:		
Natural gas and oil sales.....	\$17,048	\$12,564
Well operations.....	612	642
TOTAL REVENUES.....	17,660	13,206
COSTS AND EXPENSES:		
Lease operating expenses.....	2,455	2,262
Depletion, depreciation and amortization.....	4,738	5,367
General and administrative expense.....	979	1,013
Investment banking and related fees.....	291	--
Operating income.....	9,197	4,564
Interest expense and amortization of debt issuance costs....	(9,740)	(9,450)
Interest and other income.....	26	36
NET LOSS.....	(517)	(4,850)
PREFERRED DIVIDEND (\$30.16 AND \$30.26 PER PREFERRED SHARE).....	1,895	1,688
PREFERRED DIVIDEND -- AMORTIZATION OF PREFERRED DISCOUNT....	461	461
NET LOSS AVAILABLE FOR COMMON SHARES.....	\$(2,873)	\$(6,999)
NET LOSS PER COMMON SHARE, BASIC AND DILUTED.....	\$ (.15)	\$ (.43)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING, BASIC AND DILUTED.....	18,686	16,292

See accompanying notes

## GOTHIC ENERGY CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS  
(IN THOUSANDS)  
(UNAUDITED)

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss.....	\$ (3,400)	\$(10,471)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation, depletion and amortization.....	9,975	10,652
Amortization of discount and loan costs.....	907	832
Accretion of interest on discount notes.....	5,101	4,674
CHANGES IN ASSETS AND LIABILITIES:		
Increase in accounts receivable.....	(4,332)	(2,482)
Increase in other current assets.....	(254)	(80)
Increase (decrease) in accounts and revenues payable.....	1,082	(275)
Increase (decrease) in accrued liabilities.....	(405)	243
Decrease in gas imbalance liability.....	(374)	(76)
Decrease in other assets.....	39	--
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	8,339	3,017
NET CASH USED BY INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment.....	1,638	2,104
Purchase of property and equipment.....	(779)	(3,659)
Property development costs.....	(12,187)	(9,306)
NET CASH USED BY INVESTING ACTIVITIES.....	(11,328)	(10,861)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings.....	13,473	17,500
Payments of long-term borrowings.....	(7,750)	(10,000)
Payment of loan fees.....	--	(76)
NET CASH PROVIDED BY FINANCING ACTIVITIES.....	5,723	7,424
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	2,734	(420)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD.....	2,583	2,289
CASH AND CASH EQUIVALENTS, END OF PERIOD.....	\$ 5,317	\$ 1,869
SUPPLEMENTAL DISCLOSURE OF INTEREST PAID.....	\$ 13,361	\$ 13,221

See accompanying notes

## GOTHIC ENERGY CORPORATION AND SUBSIDIARY

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1. GENERAL AND ACCOUNTING POLICIES

## Organization and Nature of Operations

The consolidated financial statements include the accounts of Gothic Energy Corporation, ("Gothic Energy") a "holding company," and its subsidiary, Gothic Production Corporation ("Gothic Production") since its formation in April of 1998, (collectively referred to as "Gothic"). All significant intercompany balances and transactions have been eliminated. Gothic is primarily engaged in the business of acquiring, developing and exploiting natural gas and oil reserves in Oklahoma, Texas, New Mexico and Kansas. Substantially all of Gothic's natural gas and oil production is being sold regionally in the "spot market" or under short-term contracts, not extending beyond twelve months.

## Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management of Gothic, the accompanying financial statements contain all adjustments, none of which were other than normal recurring accruals, necessary to present fairly the financial position of Gothic as of June 30, 2000, and the results of its operations and cash flows for the periods ended June 30, 2000 and 1999. The results of operations for the 2000 period are not necessarily indicative of the results of operations to be expected for the full year. Our independent accountants have performed a review of these interim financial statements in accordance with standards established by the American Institute of Certified Public Accountants. Pursuant to Rule 436(c) under the Securities Act of 1933, their report of that review should not be considered as part of any registration statements prepared or certified by them within the meaning of Section 7 and 11 of that Act. The financial statements should be read in conjunction with Gothic's Annual Report on Form 10-KSB for the year ended December 31, 1999.

## Loss per Common Share

Net loss per common share is computed in accordance with Statement of Financial Accounting Standards No. 128 ("FAS 128"). Presented on the Consolidated Statement of Operations is a reconciliation of loss available to common shareholders. There is no difference between actual weighted average shares outstanding, which are used in computing basic loss per share, and diluted weighted average shares, which are used in computing diluted loss per share, because the effect of outstanding options and warrants would be antidilutive. Warrants and options to purchase approximately 18,830,309 and 21,575,000 shares were outstanding as of June 30, 2000 and 1999, and were excluded from the computation of diluted loss per share due to their anti-dilutive impact.

## Hedging Activities

In January 2000, Gothic entered into a hedge agreement covering 50,000 MMBTU per day at a fixed price of \$2.435 per MMBTU. This hedge is in effect from April 2000 through October 2000. In February 2000, Gothic entered into a hedge agreement covering 20,000 MMBTU per day at a fixed price of \$2.535 per MMBTU for April 2000 and \$2.555 per MMBTU for May 2000. This hedge was in effect for the months of April and May 2000. The commodity reference price for both contracts is the Panhandle Eastern Pipeline Company, Texas, and Oklahoma Mainline Index. If the open gas hedges noted above had been settled on June 30, 2000, Gothic would have recognized a loss of approximately \$11,096,000.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In August 1999, Gothic entered into a hedge agreement covering 10,000 barrels of oil per month at a fixed price of \$20.10 per barrel. This hedge is in effect from September 1999 through August 2000. Gains and losses on such natural gas and oil contracts are reflected in revenues as price adjustments in the months of related production. If the open crude oil hedge noted above had been settled on June 30, 2000, Gothic would have recognized a loss of approximately \$338,000.

In July 1999 Gothic entered into a costless collar agreement with respect to the production of 50,000 MMBTU per day during the period of November 1999 through March 2000, which placed a floor of \$2.30 per MMBTU and a ceiling of \$3.03 per MMBTU. The collar represented approximately 70% of Gothic's current daily natural gas production. Collar arrangements limit the benefits Gothic will realize if actual prices rise above the ceiling price. These arrangements provide for Gothic to exchange a floating market price for a fixed range contract price. Payments are made by Gothic when the floating price exceeds the fixed range for a contract month and payments are received when the fixed range price exceeds the floating price. The commodity reference price for the contract was the Panhandle Eastern Pipeline Company, Texas, Oklahoma Mainline Index.

## Recently issued Financial Accounting Pronouncements

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." FAS 133, as amended, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000 (January 1, 2001 for Gothic). FAS 133 standardizes the accounting for derivative instruments by requiring that all derivatives be recognized as assets and liabilities and measured at fair value. Upon the Statement's initial application, all derivatives are required to be recognized in the statement of financial position as either assets or liabilities and measured at fair value. In addition, all existing hedging relationships must be designated, reassessed, documented and the accounting conformed to the provisions of FAS 133. Gothic is evaluating the impact on its financial position and results of operations of adopting FAS 133.

## NOTE 2. GOING CONCERN

Gothic incurred a net loss of \$129,689,000 in 1998, due principally to a decline in commodity prices during that year. This commodity price decline required Gothic to write down the carrying value of its natural gas and oil properties by \$76,000,000. More significantly, the commodity price decline continued to affect the ongoing revenues and cash flows of Gothic during early 1999, resulting in a net loss of \$17,309,000 for the year ended December 31, 1999, raising doubt about Gothic's ability to continue as a going concern. Management's plans to mitigate these conditions are as follows:

It is the intention of Gothic to continue to spend available cash flow (EBITDA less cash interest payable on Senior Secured Notes) on the development of natural gas and oil properties. In the current commodity price environment and pending the merger with Chesapeake Energy Corporation, Gothic does not anticipate hedging additional natural gas or oil production. Should commodity prices fall below current levels, Gothic may be limited in its ability to increase production and related cash flow to a level sufficient to meet its ongoing financial covenants under its Credit Facility. The price of natural gas and oil in the first half of 2000 had increased over levels prevailing during much of 1999 but there is no assurance that prices will continue to increase or remain at the current levels. Further, the borrowing base amount available under Gothic's Credit Facility was redetermined in April 2000 and was reduced to \$15,000,000. The next scheduled redetermination date is October 1, 2000 and there is no assurance that Gothic's lender will maintain the available amount at this current level.

As part of its ongoing efforts to restructure and improve its balance sheet, Gothic had negotiated agreements with the holders of its 14 1/8% Senior Secured Discount Notes intended to result in the conversion of that indebtedness into equity securities of Gothic Energy. Subsequently, Chesapeake Energy



## GOTHIC ENERGY CORPORATION AND SUBSIDIARY

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Corporation purchased approximately 96% of the principal amount of those notes. Negotiations between Gothic and Chesapeake followed and Gothic announced on June 30, 2000 its intention to merge with a subsidiary of Chesapeake Energy Corporation in exchange for 4,000,000 shares of Chesapeake's common stock (See Note 4 -- Subsequent Event). Gothic is unable to predict when and if this transaction will be completed.

If management's plans are not completed in the manner contemplated, there will remain substantial doubt about Gothic's ability to continue as a going concern.

## NOTE 3. SUMMARIZED FINANCIAL INFORMATION

Gothic Production was organized in March 1998 as a wholly owned subsidiary of Gothic Energy. On April 27, 1998, Gothic Energy transferred to Gothic Production its ownership of all its natural gas and oil properties. Following is the summarized financial information related to Gothic as of June 30, 2000 and December 31, 1999 and for the six and three months ended June 30, 2000 and 1999 (in thousands):

## AS OF JUNE 30, 2000

	GOTHIC ENERGY CORPORATION	GOTHIC PRODUCTION CORPORATION	GOTHIC ENERGY CORPORATION CONSOLIDATED
Current assets.....	\$ --	\$ 18,791	\$ 18,791
Non-current assets.....	1,632(1)	225,703	227,335
Current liabilities.....	--	31,207	31,207
Non-current liabilities.....	80,958(2)	238,274	319,232

## AS OF DECEMBER 31, 1999

	GOTHIC ENERGY CORPORATION	GOTHIC PRODUCTION CORPORATION	GOTHIC ENERGY CORPORATION CONSOLIDATED
Current assets.....	\$ --	\$ 11,447	\$ 11,447
Non-current assets.....	1,772(1)	225,178	226,950
Current liabilities.....	--	15,927	15,927
Non-current liabilities.....	75,857(2)	247,648	323,505

## FOR THE SIX MONTHS ENDED JUNE 30, 2000

	GOTHIC ENERGY CORPORATION	GOTHIC PRODUCTION CORPORATION	GOTHIC ENERGY CORPORATION CONSOLIDATED
Total revenues.....	\$ --	\$ 33,219	\$ 33,219
Operating costs and expenses.....	--	17,179	17,179
Interest expense and amortization of debt issuance cost.....	5,241	14,249	19,490
Net income (loss).....	(5,241)	1,841	(3,400)

## FOR THE SIX MONTHS ENDED JUNE 30, 1999

	GOTHIC ENERGY CORPORATION	GOTHIC PRODUCTION CORPORATION	GOTHIC ENERGY CORPORATION CONSOLIDATED
Total revenues.....	\$ --	\$ 24,676	\$ 24,676
Operating costs and expenses.....	--	17,237	17,237
Interest expense and amortization of debt issuance cost.....	4,814	13,913	18,727
Net loss.....	(4,814)	(5,657)	(10,471)

## GOTHIC ENERGY CORPORATION AND SUBSIDIARY

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## FOR THE THREE MONTHS ENDED JUNE 30, 2000

	GOTHIC ENERGY CORPORATION	GOTHIC PRODUCTION CORPORATION	GOTHIC ENERGY CORPORATION CONSOLIDATED
Total revenues.....	\$ --	\$17,660	\$17,660
Operating costs and expenses.....	--	8,463	8,463
Interest expense and amortization of debt issuance cost.....	2,554	7,186	9,740
Net income (loss).....	(2,554)	2,037	(517)

## FOR THE THREE MONTHS ENDED JUNE 30, 1999

	GOTHIC ENERGY CORPORATION	GOTHIC PRODUCTION CORPORATION	GOTHIC ENERGY CORPORATION CONSOLIDATED
Total revenues.....	\$ --	\$13,206	\$13,206
Operating costs and expenses.....	--	8,642	8,642
Interest expense and amortization of debt issuance cost.....	2,460	6,990	9,450
Net loss.....	(2,460)	(2,390)	(4,850)

- - - - -

(1) Includes unamortized debt issuance costs.

(2) Includes 14 1/8% Senior Secured Discount Notes.

## NOTE 4. SUBSEQUENT EVENTS

On June 30, 2000 Gothic announced it had reached an agreement with Chesapeake Energy Corporation to merge with a wholly owned subsidiary of Chesapeake, in exchange for 4,000,000 shares of Chesapeake's common stock.

Gothic's previously announced plan of restructuring, which contemplated the redemption of Chesapeake's holding of Gothic's preferred and common stock for oil and gas properties and other considerations, the exchange of the \$104,000,000 Senior Discount Notes in exchange for 94% of Gothic's equity and an equity rights offering of \$15,000,000, have been terminated in anticipation of this transaction.

Although the merger is subject to the completion of definitive documentation, normal regulatory approvals and a Gothic shareholder vote, both Boards of Directors have unanimously approved the transaction. Gothic plans to hold a special shareholder's meeting as soon as possible following completion of the SEC's review of a proxy statement, describing the transaction, which it anticipates filing in August 2000. Completion of the transaction is expected by year-end 2000.

At June 30, 2000, Gothic had 18,685,765 common shares outstanding, plus employee and director options to purchase 4,435,000 shares, all of which are expected to be exercised on or before closing of the transaction. Of the outstanding shares, Chesapeake owns 2,394,125 shares and will not participate in the exchange for the 4,000,000 Chesapeake common shares to be received by Gothic's other shareholders.

Gothic loaned \$90,000 to certain employees and one director in the form of a note payable to Gothic, at an interest rate of 6% per annum, due and payable on July 31, 2001. On July 11, 2000, the employees and the director of Gothic exercised 225,000 outstanding common stock options. The options were exercised upon the payment of \$90,000 to Gothic.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Gothic loaned \$1,739,000 to certain employees, two officers and two directors in the form of a note payable to Gothic, at an interest rate of 6% per annum, due and payable on July 31, 2001. On August 1, 2000 the individuals exercised an additional 4,165,000 outstanding common stock options. Of the total options exercised, 4,155,000 options were exercised upon payment of \$1,739,500 to Gothic, and 10,000 options were exercised under the cashless exercise provisions of the option plan.

Reflecting the exercise of these options, 45,000 common stock options remain outstanding at August 4, 2000.

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and  
Stockholders of Gothic Energy Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of Gothic Energy Corporation and Subsidiary at December 31, 1999, and the results of their operations and their cash flows for the years ended December 31, 1999 and 1998, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of Gothic's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

The accompanying consolidated financial statements have been prepared assuming that Gothic will continue as a going concern. As discussed in Note 2 to the financial statements, Gothic has suffered recurring losses from operations and has a working capital and a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PricewaterhouseCoopers LLP

Tulsa, Oklahoma  
February 21, 2000

## GOTHIC ENERGY CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET  
 DECEMBER 31, 1999  
 (DOLLARS IN THOUSANDS, EXCEPT PAR VALUE)

	1999
-----	
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents.....	\$ 2,583
Natural gas and oil receivables.....	8,163
Receivable from officers and employees.....	77
Other.....	624
-----	
TOTAL CURRENT ASSETS.....	11,447
PROPERTY AND EQUIPMENT:	
Natural gas and oil properties on full cost method:	
Properties being amortized.....	258,818
Unproved properties not subject to amortization.....	5,473
Equipment, furniture and fixtures.....	6,123
Accumulated depreciation, depletion and amortization.....	(54,170)
-----	
PROPERTY AND EQUIPMENT, NET.....	216,244
OTHER ASSETS, NET.....	10,706
-----	
TOTAL ASSETS.....	\$ 238,397
=====	
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)	
CURRENT LIABILITIES:	
Accounts payable trade.....	\$ 4,630
Revenues payable.....	6,047
Accrued interest.....	4,357
Other accrued liabilities.....	893
-----	
TOTAL CURRENT LIABILITIES.....	15,927
LONG-TERM DEBT, NET.....	319,857
GAS IMBALANCE LIABILITY.....	3,648
COMMITMENTS AND CONTINGENCIES (Notes 1, 2 AND 8)	
STOCKHOLDERS' EQUITY (DEFICIT):	
Series B Preferred stock, par value \$.05, authorized 165,000 shares; 59,216 shares issued and outstanding...	45,612
Common stock, par value \$.01, authorized 100,000,000 shares; issued and outstanding 18,685,765 shares.....	187
Additional paid in capital.....	42,987
Accumulated deficit.....	(189,821)
-----	
TOTAL STOCKHOLDERS' EQUITY (DEFICIT).....	(101,035)
-----	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT).....	\$ 238,397
=====	

See accompanying notes to consolidated financial statements

GOTHIC ENERGY CORPORATION AND SUBSIDIARY  
 CONSOLIDATED STATEMENT OF OPERATIONS  
 FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998  
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	1999	1998
	-----	-----
REVENUES:		
Natural gas and oil sales.....	\$ 52,967	\$ 50,714
Well operations.....	2,657	2,319
	-----	-----
Total revenues.....	55,624	53,033
COSTS AND EXPENSES:		
Lease operating expense.....	9,605	12,129
Depletion, depreciation and amortization.....	20,969	24,001
General and administrative expense.....	4,675	3,823
Investment banking and related fees.....	638	--
Provision for impairment of natural gas and oil properties.....	--	76,000
	-----	-----
Operating income (loss).....	19,737	(62,920)
Interest expense and amortization of debt issuance costs....	(37,988)	(35,438)
Interest and other income.....	942	433
Loss on sale of investments.....	--	(305)
	-----	-----
LOSS BEFORE EXTRAORDINARY ITEM.....	(17,309)	(98,230)
LOSS ON EARLY EXTINGUISHMENT OF DEBT.....	--	31,459
	-----	-----
NET LOSS.....	(17,309)	(129,689)
PREFERRED DIVIDEND (\$120.32 and \$125.76 PER PREFERRED SHARE).....	6,820	5,599
PREFERRED DIVIDEND -- AMORTIZATION OF PREFERRED DISCOUNT....	1,847	5,095
	-----	-----
NET LOSS AVAILABLE FOR COMMON SHARES.....	\$(25,976)	\$(140,383)
	=====	=====
LOSS PER COMMON SHARE BEFORE EXTRAORDINARY ITEM, BASIC AND DILUTED.....	\$ (1.51)	\$ (6.70)
	=====	=====
NET LOSS PER COMMON SHARE, BASIC AND DILUTED.....	\$ (1.51)	\$ (8.63)
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING.....	17,219	16,262
	=====	=====

See accompanying notes to consolidated financial statements

## GOTHIC ENERGY CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
 FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998  
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	COMMON SHARES OUTSTANDING	PREFERRED SHARES OUTSTANDING	COMMON STOCK	PREFERRED STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE INCOME	NOTE RECEIVABLE
	-----	-----	-----	-----	-----	-----	-----	-----
BALANCE, AT DECEMBER 31, 1997.....	16,262	--	\$162	\$ --	\$36,043	\$ (23,462)	\$(121)	\$(169)
Issuance of Series A Preferred Stock.....	--	37	--	33,909	(20)	--	--	--
Warrants issued in connection with Series A Preferred.....	--	--	--	--	941	--	--	--
Warrants issued in connection with Amoco acquisition.....	--	--	--	--	1,153	--	--	--
Redemption of Series A Preferred.....	--	(37)	--	(33,909)	--	--	--	--
Issuance of Series B Preferred Stock.....	--	50	--	31,527	--	--	--	--
Warrants issued in connection With Series B Preferred.....	--	--	--	--	4,879	--	--	--
Preferred Stock dividend -- Series A.....	--	--	--	--	--	(1,412)	--	--
Preferred dividend -- amortization of discount -- Series A.....	--	--	--	--	--	(3,864)	--	--
Preferred Stock dividend -- Series B.....	--	4	--	4,187	--	(4,187)	--	--
Preferred dividend -- amortization of discount -- Series B.....	--	--	--	1,231	--	(1,231)	--	--
Net loss.....	--	--	--	--	--	(129,689)	--	--
Realized loss on available for sale investments.....	--	--	--	--	--	--	121	--
Advance to officer.....	--	--	--	--	--	--	--	(10)
	-----	-----	-----	-----	-----	-----	-----	-----
BALANCE, AT DECEMBER 31, 1998.....	16,262	54	162	36,945	42,996	(163,845)	--	(179)
Preferred Stock dividend -- Series B.....	--	6	--	6,820	--	(6,820)	--	--
Preferred dividend -- amortization of discount -- Series B.....	--	--	--	1,847	--	(1,847)	--	--
Issuance of common stock as employee severance.....	30	--	--	--	16	--	--	--
Issuance of common stock on warrant conversion.....	2,394	--	25	--	(25)	--	--	--
Forgiveness of officer note receivable.....	--	--	--	--	--	--	--	179
Net loss.....	--	--	--	--	--	(17,309)	--	--
	-----	-----	-----	-----	-----	-----	-----	-----
BALANCE, AT DECEMBER 31, 1999.....	18,686	60	\$187	\$ 45,612	\$42,987	\$(189,821)	\$ --	\$ --
	=====	===	====	=====	=====	=====	=====	=====

TOTAL  
 STOCKHOLDERS'  
 EQUITY

	-----
BALANCE, AT DECEMBER 31, 1997.....	\$ 12,453
Issuance of Series A Preferred Stock.....	33,889
Warrants issued in connection with Series A Preferred.....	941
Warrants issued in connection with Amoco acquisition.....	1,153
Redemption of Series A Preferred.....	(33,909)
Issuance of Series B Preferred Stock.....	31,527

Warrants issued in connection With Series B Preferred.....	4,879
Preferred Stock dividend -- Series A.....	(1,412)
Preferred dividend -- amortization of discount -- Series A.....	(3,864)
Preferred Stock dividend -- Series B.....	--
Preferred dividend -- amortization of discount -- Series B.....	--
Net loss.....	(129,689)
Realized loss on available for sale investments.....	121
Advance to officer.....	(10)
	-----
BALANCE, AT DECEMBER 31, 1998.....	(83,921)
Preferred Stock dividend -- Series B.....	--
Preferred dividend -- amortization of discount -- Series B.....	--
Issuance of common stock as employee severance.....	16
Issuance of common stock on warrant conversion.....	--
Forgiveness of officer note receivable.....	179
Net loss.....	(17,309)
	-----
BALANCE, AT DECEMBER 31, 1999.....	\$(101,035)
	=====

See accompanying notes to consolidated financial statements



GOTHIC ENERGY CORPORATION AND SUBSIDIARY  
 CONSOLIDATED STATEMENT OF CASH FLOWS  
 FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998  
 (IN THOUSANDS)

	1999	1998
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss.....	\$(17,309)	\$(129,689)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation, depletion and amortization.....	20,969	24,001
Amortization of discount and loan costs.....	1,769	1,994
Provision for impairment of natural gas and oil properties.....	--	76,000
Accretion of interest on discount notes.....	9,678	6,023
Loss on early extinguishment of debt.....	--	31,459
Other.....	179	--
CHANGES IN ASSETS AND LIABILITIES:		
Increase in accounts receivable.....	(949)	(4,009)
Increase in other current assets.....	(403)	(143)
Increase in accounts and revenues payable.....	1,438	5,605
Increase (decrease) in gas imbalance and other liabilities.....	(2,532)	65
Increase in accrued liabilities.....	639	411
Decrease (increase) in other assets.....	228	(150)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	13,707	11,567
NET CASH USED BY INVESTING ACTIVITIES:		
Collection of note receivable from officer and director...	--	167
Purchase of available-for-sale investments.....	--	(462)
Proceeds from sale of investments.....	--	1,359
Proceeds from sale of property and equipment.....	2,228	44,678
Purchase of property and equipment.....	(3,413)	(218,738)
Property development costs.....	(21,056)	(18,379)
	-----	-----
NET CASH USED BY INVESTING ACTIVITIES.....	(22,241)	(191,375)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings.....	--	60,000
Payments of short-term borrowings.....	--	(60,000)
Proceeds from long-term borrowings.....	31,000	431,290
Payments of long-term borrowings.....	(22,000)	(259,884)
Redemption of preferred stock, net.....	--	(40,809)
Proceeds from sale of preferred stock, net.....	--	73,475
Payment of loan and offering fees.....	(172)	(38,535)
Other.....	--	(162)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES.....	8,828	165,375
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	294	(14,433)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD.....	2,289	16,722
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD.....	\$ 2,583	\$ 2,289
	=====	=====
SUPPLEMENTAL DISCLOSURE OF INTEREST PAID.....	\$ 26,541	\$ 23,063
	=====	=====

See accompanying notes to consolidated financial statements

GOTHIC ENERGY CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1. GENERAL AND ACCOUNTING POLICIES

## Organization and Nature of Operation

The consolidated financial statements include the accounts of Gothic Energy Corporation, a "holding company," and its subsidiary, Gothic Production Corporation ("Production Corp.") since its formation in April of 1998, (collectively Gothic Energy Corporation and Production Corp. are referred to as "Gothic"). All significant intercompany balances and transactions have been eliminated. Gothic is an independent energy company primarily engaged in the business of acquiring, developing and exploiting natural gas and oil reserves in Oklahoma, Texas, New Mexico and Kansas.

## Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In addition, accrued and deferred lease operating expenses, gas imbalance liabilities, natural gas and oil reserves (see Note 13) and the tax valuation allowance (see Note 7) also include significant estimates which, in the near term, could materially differ from the amounts ultimately realized or incurred.

## Cash Equivalents

Cash equivalents include cash on hand, amounts held in banks, money market funds and other highly liquid investments with a maturity of three months or less at date of purchase.

## Concentration of Credit Risk

Financial instruments which potentially subject Gothic to concentrations of credit risk consist principally of derivative contracts (see "Hedging Activities" below), cash, cash equivalents and trade receivables. Gothic's accounts receivable are primarily from the purchasers (See Note 10 -- Major Customers) of natural gas and oil products and exploration and production companies which own interests in properties operated by Gothic. The industry concentration has the potential to impact Gothic's overall exposure to credit risk, either positively or negatively, in that the customers may be similarly affected by changes in economic, industry or other conditions. Gothic generally does not require collateral from customers and Gothic had an account receivable from one customer of approximately \$2,300,000 at December 31, 1999. The cash and cash equivalents are with major banks or institutions with high credit ratings. At December 31, 1999, Gothic had a concentration of cash of \$5,758,000 with one bank, which was in excess of federally insured limits.

## Fair Value of Financial Instruments

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

The carrying values of items comprising current assets and current liabilities approximate fair values due to the short-term maturities of these instruments. Gothic estimates the fair value of its 11 1/8% Senior Secured Notes and 14 1/8% Senior Secured Discount Notes using estimated market prices. Gothic's carrying

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

amount for such debt at December 31, 1999, was \$235,000,000 and \$75,857,000, respectively, compared to an approximate fair value of \$197,400,000 and \$35,880,000, respectively. The carrying value of other long-term debt approximates its fair value as interest rates are primarily variable, based on prevailing market rates.

#### Hedging Activities

Gothic has involvement with derivative financial instruments, as defined in Statement of Financial Accounting Standards No. 119 "Disclosure About Derivative Financial Instruments and Fair Value of Financial Instruments," and does not use them for trading purposes. Gothic's objective is to hedge a portion of its exposure to price volatility from producing natural gas. These arrangements may expose Gothic to credit risk from its counterparty.

In April 1999, Gothic entered into a hedge agreement in the form of a costless collar with respect to the production of 50,000 MMBTU of natural gas per day during the period of May through October 1999. The costless collar placed a floor of \$1.80 per MMBTU and a ceiling of \$2.26 per MMBTU for the effective price of natural gas received by Gothic. Additionally, in July 1999 Gothic entered into a similar costless collar agreement with respect to the production of 50,000 MMBTU per day during the period of November 1999 through March 2000 which places a floor of \$2.30 per MMBTU and a ceiling of \$3.03 per MMBTU. The collars represent approximately 70% of Gothic's current daily natural gas production. Collar arrangements limit the benefits Gothic will realize if actual prices rise above the ceiling price. These arrangements provide for Gothic to exchange a floating market price for a fixed range contract price. Payments are made by Gothic when the floating price exceeds the fixed range for a contract month and payments are received when the fixed range price exceeds the floating price. The commodity reference price for both contracts is the Panhandle Eastern Pipeline Company, Texas, Oklahoma Mainline Index. In August 1999, Gothic entered into a hedge agreement covering 10,000 barrels of oil per month at a fixed price of \$20.10 per barrel. This hedge is in effect from September 1999 through August 2000. Gains and losses on such natural gas and oil contracts are reflected in revenues when the natural gas or crude oil is sold. If the open gas collar noted above had been settled on December 31, 1999, Gothic would have recognized a gain of \$769,000. If the open crude oil hedge noted above had been settled on December 31, 1999, Gothic would have recognized a loss of \$282,000.

Additionally, in January 2000, Gothic entered into a hedge agreement covering 50,000 MMBTU per day at a fixed price of \$2.435 per MMBTU. This hedge is in effect from April 2000 through October 2000. In February 2000, Gothic entered into a hedge agreement covering 20,000 MMBTU per day at a fixed price of \$2.535 per MMBTU for April 2000 and \$2.555 per MMBTU for May 2000. This hedge is in effect for the months of April and May 2000. The commodity reference price for both contracts is the Panhandle Eastern Pipeline Company, Texas, Oklahoma Mainline Index.

#### Natural Gas and Oil Properties

Gothic accounts for its natural gas and oil exploration and development activities using the full cost method of accounting prescribed by the Securities and Exchange Commission ("SEC"). Accordingly, all productive and non-productive costs incurred in connection with the acquisition, exploration and development of natural gas and oil reserves are capitalized and depleted using the units-of-production method based on proved natural gas and oil reserves. Gothic capitalizes costs including salaries and related fringe benefits of employees and/or consultants directly engaged in the acquisition, exploration and development of natural gas and oil properties, as well as other directly identifiable general and administrative costs associated with such activities. Such costs do not include any costs related to production, general corporate overhead, or similar activities.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Gothic's natural gas and oil reserves are estimated annually by independent petroleum engineers. Gothic's calculation of depreciation, depletion and amortization ("DD&A") includes estimated future expenditures to be incurred in developing proved reserves and estimated dismantlement and abandonment costs, net of salvage values. The average composite rate used for DD&A of natural gas and oil properties was \$0.77 and \$0.91 per Mcfe in 1999 and 1998, respectively. DD&A of natural gas and oil properties amounted to \$20,444,000 and \$23,600,000 in 1999 and 1998, respectively.

In the event the unamortized cost of natural gas and oil properties being amortized exceeds the full cost ceiling as defined by the SEC, the excess is charged to expense in the period during which such excess occurs. The full cost ceiling is based principally on the estimated future discounted net cash flows from Gothic's natural gas and oil properties. Gothic recorded a \$76,000,000 provision for impairment of natural gas and oil properties during the year ended December 31, 1998. No such provision was recorded in 1999. As discussed in Note 13, estimates of natural gas and oil reserves are imprecise. Changes in the estimates or declines in natural gas and oil prices could cause Gothic in the near-term to reduce the carrying value of its natural gas and oil properties.

Sales and abandonments of properties are accounted for as adjustments of capitalized costs with no gain or loss recognized unless a significant amount of reserves is involved. Since all of Gothic's natural gas and oil properties are located in the United States, a single cost center is used.

#### Equipment, Furniture and Fixtures

Equipment, furniture and fixtures are stated at cost and are depreciated on the straight-line method over their estimated useful lives which range from three to seven years.

#### Debt Issuance Costs

Debt issuance costs, including the original issue discount, associated with Gothic's 11 1/8% Senior Secured Notes Due 2005 and 14 1/8% Senior Secured Discount Notes Due 2006, are amortized and included in interest expense using the effective interest method over the term of the notes. The unamortized portion of debt issuance costs associated with Gothic's Credit Facility is included in other assets and amortized and included in interest expense using the straight-line method over the term of the Facility. Amortization of debt issuance costs for the years ended December 31, 1999 and 1998 amounted to \$1,769,000 and \$1,994,000, respectively.

#### Natural Gas and Oil Sales and Natural Gas Balancing

Gothic uses the sales method for recording natural gas sales. Gothic's oil and condensate production is sold, title passed, and revenue recognized at or near its wells under short-term purchase contracts at prevailing prices in accordance with arrangements which are customary in the oil industry. Sales of gas applicable to Gothic's interest in producing natural gas and oil leases are recorded as revenues when the gas is metered and title transferred pursuant to the gas sales contracts covering its interest in gas reserves. During such times as Gothic's sales of gas exceed its pro rata ownership in a well, such sales are recorded as revenues unless total sales from the well have exceeded Gothic's share of estimated total gas reserves underlying the property at which time such excess is recorded as a gas imbalance liability. At December 31, 1999, total sales exceeded Gothic's share of estimated total gas reserves on 32 wells by \$2,752,000 (1,449,000 Mcf), based on the year-end "spot market" price of natural gas. The gas imbalance liability has been classified in the balance sheet as non-current, as Gothic does not expect to settle the liability during the next twelve months.

Gothic has recorded deferred charges for estimated lease operating expenses incurred in connection with its underproduced gas imbalance position. At December 31, 1999, cumulative total gas sales volumes

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

for underproduced wells were less than Gothic's pro-rata share of total gas production from these wells by 4,435,000 Mcf, resulting in prepaid lease operating expenses of \$1,464,000, which are included in other assets in the accompanying balance sheet. The rate used to calculate the deferred charge is the average annual production costs per Mcf.

Gothic has recorded accrued charges for estimated lease operating expenses incurred in connection with its overproduced gas imbalance position. At December 31, 1999, cumulative total gas sales volumes for overproduced wells exceeded Gothic's pro-rata share of total gas production from these wells by 2,717,000 Mcf, resulting in accrued lease operating expenses of \$897,000, which are included in the gas imbalance liability in the accompanying balance sheet. The rate used to calculate the accrued liability is the average annual production costs per Mcf.

## Income Taxes

Gothic applies the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). Under SFAS No. 109, deferred tax liabilities or assets arise from the temporary differences between the tax basis of assets and liabilities, and their basis for financial reporting, and are subject to tests of realizability in the case of deferred tax assets. A valuation allowance is provided for deferred tax assets to the extent realization is not judged to be more likely than not.

## Loss per Common Share

Loss per common share before extraordinary item and net loss per common share are computed in accordance with Statement of Financial Accounting Standards No. 128 ("FAS 128"). Presented on the Consolidated Statement of Operations is a reconciliation of loss available to common shareholders. There is no difference between actual weighted average shares outstanding, which are used in computing basic loss per share and diluted weighted average shares, which are used in computing diluted loss per share because the effect of outstanding options and warrants would be antidilutive. Warrants and options to purchase approximately 19,940,000 and 20,775,000 shares were outstanding as of December 31, 1999 and 1998 and were excluded from the computation of diluted loss per share due to their anti-dilutive impact.

## Stock Based Compensation

Gothic applies Accounting Principles Board Opinion No. 25 in accounting for its stock option plans. Under this standard, no compensation expense is recognized for grants of options which include an exercise price equal to or greater than the market price of the stock on the date of grant. Accordingly, based on Gothic's grants in 1999 and 1998, no compensation expense has been recognized.

## Recently issued Financial Accounting Pronouncements

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." FAS 133, as amended, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000 (January 1, 2001 for Gothic). FAS 133 standardizes the accounting for derivative instruments by requiring that all derivatives be recognized as assets and liabilities and measured at fair value. Upon the Statement's initial application, all derivatives are required to be recognized in the statement of financial position as either assets or liabilities and measured at fair value. In addition, all existing hedging relationships must be designated, reassessed, documented and the accounting conformed to the provisions of FAS 133. Gothic is evaluating the impact on its financial position and results of operations of adopting FAS 133.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE 2. GOING CONCERN

Gothic incurred a net loss of \$129,689,000 in 1998, due principally to a decline in commodity prices during that year. This commodity price decline required Gothic to write down the carrying value of its natural gas and oil properties by \$76,000,000. More significantly, the commodity price decline continued to affect the ongoing revenues and cash flows of Gothic during early 1999, resulting in a net loss of \$17,309,000 for the year ended December 31, 1999.

It is the intention of Gothic to continue to spend available cash flow (EBITDA less cash interest payable on Senior Secured Notes) on the development of natural gas and oil properties. With the continued volatility of commodity prices, hedging programs will continue to be utilized by Gothic. This should help to stabilize cash flow, which is necessary to ensure Gothic's ability to generate sufficient reserves to replace current production, but limits the benefit of increases in commodity prices above the hedge price. Should commodity prices fall below current levels, Gothic would be limited in its ability to increase production and related cash flow to a level sufficient to meet its ongoing financial covenants under its Credit Facility. The price of natural gas and oil has recently been increasing, but there is no assurance that it will continue to increase or remain at the current level. Further, the borrowing base amount available under Gothic's Credit Facility was redetermined in October 1999 and was reduced to \$20,000,000. The next scheduled redetermination date is April 1, 2000 and there is no assurance that Gothic's lender will maintain the available amount at this current level.

## NOTE 3. SUBSEQUENT EVENTS

On February 29, 2000, Gothic and Chesapeake Energy Corporation ("Chesapeake") entered into agreements which will substantially revise the Production Corp./Chesapeake Joint Venture ("JV") Development Agreement originally entered into on March 31, 1998, and will provide for Gothic to redeem, without any additional consideration, its Series B Preferred Stock and Common Stock held by Chesapeake, (the "Securities"), as part of a plan of restructuring. The redemption of the Securities and various revisions to the JV are subject to material conditions including approval by certain lenders of Gothic.

The revised agreement and Securities redemption include the following significant terms:

- Extension of the JV for three years with an immediate exclusion of the state of Texas south of latitude 34 degrees North from the provisions of the JV;
- Granting a right of first refusal to Chesapeake on any property dispositions made by Gothic;
- Segregation of first development rights, with Gothic having the first right to future drilling, completion and operating activities in its core operating area in the Watonga-Chickasha Trend and also to its undeveloped acreage in Potato Hills, Carter Knox, Cottonwood Creek, Oklahoma and Pecos Slope, New Mexico. Chesapeake will have first right in all other areas containing JV acreage. Additionally, Chesapeake will assume operations of 28 wells which were drilled in the JV by Chesapeake but had been operated since first production by Gothic;
- A permanent assignment to Chesapeake of the undeveloped leasehold interest originally assigned to Chesapeake on March 31, 1998 that was subject to reassignment to Gothic by Chesapeake in 2003;
- A permanent assignment to Chesapeake of Gothic's remaining JV undeveloped leasehold in 16 counties located in the Anadarko and Arkoma basins in Oklahoma and Kansas. The acreage in this assignment excludes 15 proved undeveloped locations retained by Gothic. Gothic's remaining 50% interest in undeveloped acreage outside the 16 county areas will not be conveyed to Chesapeake, and specifically, undeveloped acreage in Watonga-Chickasha Trend and the Cement Field is not being conveyed;

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

- Chesapeake will have the right to acquire all of Gothic's participation in wells in the 16 county area (excluding the participation in the 15 proved undeveloped locations retained by Gothic) that are drilled between February 1, 2000 and the closing of this transaction. Chesapeake's cost to acquire these wells will be the reimbursement of Gothic's unrecovered cost of drilling, completing and operating the wells;
- Redemption by Gothic of its entire issue of Series B Preferred Stock having a liquidation preference of approximately \$61,000,000 and of 2,394,125 shares of Gothic's common stock.

## NOTE 4. FINANCING ACTIVITIES

## Credit Facility

On April 27, 1998, Gothic entered into a credit facility, with Bank One (the "Credit Facility"). The Credit Facility consists of a revolving line of credit, with an initial Borrowing Base of \$25,000,000. Borrowings are limited to being available for the acquisition and development of natural gas and oil properties, letters of credit and general corporate purposes. The Borrowing Base will be redetermined at least semi-annually. Upon completion of the October 1, 1999 redetermination, the borrowing base was reduced to \$20,000,000. The principal is due at maturity, April 30, 2001. Interest is payable monthly calculated at the Bank One Base Rate, as determined from time to time by Bank One. Gothic may elect to calculate interest under a London Interbank Offered Rate ("LIBOR") plus 1.5% (or up to 2.0% in the event the loan balance is greater than 75% of the Borrowing Base). Gothic is required to pay a commitment fee on the unused portion of the Borrowing Base equal to 1/2 of 1% per annum. Under the Credit Facility, Bank One holds first priority liens on substantially all of the natural gas and oil properties of Gothic, whether currently owned or hereafter acquired. As of December 31, 1999, Gothic had \$9,000,000 outstanding under the Credit Facility.

The Credit Facility requires, among other things, semi-annual engineering reports covering oil and natural gas reserves on the basis of which semi-annual and other redeterminations of the borrowing base and monthly commitment reduction are made. The Credit Facility, as amended on May 7, 1999, also includes various affirmative and negative covenants, including, among others, (i) prohibitions against additional indebtedness unless approved by the lenders, subject to certain exceptions, (ii) prohibitions against the creation of liens on the assets of Gothic, subject to certain exceptions, (iii) prohibitions against cash dividends, (iv) prohibitions against hedging positions unless consented to by Bank One, (v) prohibitions on asset sales, subject to certain exceptions, (vi) restrictions on mergers or consolidations, (vii) a requirement to maintain a ratio of current assets to current liabilities of 1.0 to 1.0, and (viii) a minimum interest coverage ratio of not less than 1.25 to 1.0 for the quarter ended June 30, 1999, 1.5 to 1.0 for the quarter ended September 30, 1999, 1.75 to 1.0 for the quarter ended December 31, 1999 and 2.0 to 1.0 for each remaining quarter starting with the quarter ending March 31, 2000. The Credit Facility includes covenants prohibiting distributions, loans or advances to third parties, subject to certain exceptions. If Gothic is required to purchase or redeem any portion of the 11 1/8% Senior Secured Notes, or if any portion of the 11 1/8% Senior Secured Notes become due, the Borrowing Base is subject to reduction. Gothic is required to escrow interest payments due on the Senior Secured Notes at such times as its borrowings under the Credit Facility equal or exceed 75% of the Borrowing Base. Events of default include the non-payment of principal, interest or fees, a default under other outstanding indebtedness, a breach of the representations and warranties contained in the loan agreement, material judgements, bankruptcy or insolvency, a default under certain covenants not cured within a grace period, and a change in the management or control of Gothic.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 11 1/8% Senior Secured Notes Due 2005

The 11 1/8% Senior Secured Notes Due 2005 ("Senior Secured Notes") issued by Production Corp. are fully and unconditionally guaranteed by Gothic Energy Corporation. The aggregate principal amount of Senior Secured Notes outstanding is \$235,000,000 issued under an indenture dated April 21, 1998 (the "Senior Note Indenture"). The Senior Secured Notes bear interest at 11 1/8% per annum payable semi-annually in cash in arrears on May 1 and November 1 of each year commencing November 1, 1998. The Senior Secured Notes mature on May 1, 2005. All of the obligations of Gothic under the Senior Secured Notes are collateralized by a second priority lien on substantially all of Gothic's natural gas and oil properties, subject to certain permitted liens.

Gothic may, at its option, at any time on or after May 1, 2002, redeem all or any portion of the Senior Secured Notes at redemption prices decreasing from 105.563%, if redeemed in the 12-month period beginning May 1, 2002, to 100.00% if redeemed in the 12-month period beginning May 1, 2004 and thereafter plus, in each case, accrued and unpaid interest thereon. Notwithstanding the foregoing, at any time prior to May 1, 2002, Gothic may, at its option, redeem all or any portion of the Senior Secured Notes at the Make-Whole Price (as defined in the Senior Note Indenture) plus accrued or unpaid interest to the date of redemption. In addition, in the event Gothic consummates one or more Equity Offerings (as defined in the Senior Note Indenture) on or prior to May 1, 2001, Gothic, at its option, may redeem up to 33 1/3% of the aggregate principal amount of the Senior Secured Notes with all or a portion of the aggregate net proceeds received by Gothic from such Equity Offering or Equity Offerings at a redemption price of 111.125% of the aggregate principal amount of the Senior Secured Notes so redeemed, plus accrued and unpaid interest thereon to the redemption date; provided, however, that following such redemption, at least 66 2/3% of the original aggregate principal amount of the Senior Secured Notes remains outstanding.

Following the occurrence of any Change of Control (as defined in the Senior Note Indenture), Gothic will offer to repurchase all outstanding Senior Secured Notes at a purchase price equal to 101% of the aggregate principal amount of the Senior Secured Notes, plus accrued and unpaid interest to the date of repurchase.

The Senior Note Indenture under which the Senior Secured Notes were issued contains certain covenants limiting Gothic with respect to or imposing restrictions on the incurrence of additional indebtedness, the payment of dividends, distributions and other restricted payments, the sale of assets, creating, assuming or permitting to exist any liens (with certain exceptions) on its assets, mergers and consolidations (subject to meeting certain conditions), sale leaseback transactions, and transactions with affiliates, among other covenants.

Events of default under the Senior Note Indenture include the failure to pay any payment of principal or premium when due, failure to pay for 30 days any payment of interest when due, failure to make any optional redemption payment when due, failure to perform any covenants relating to mergers or consolidations, failure to perform any other covenant or agreement not remedied within 30 days of notice from the Trustee under the Senior Note Indenture or the holders of 25% in principal amount of the Senior Secured Notes then outstanding, defaults under other indebtedness of Gothic causing the acceleration of the due date of such indebtedness having an outstanding principal amount of \$10,000,000 or more, the failure of Production Corp. to be a wholly owned subsidiary of Gothic Energy Corporation, and certain other bankruptcy and other court proceedings, among other matters.

## 14 1/8% Senior Secured Discount Notes Due 2006

The 14 1/8% Senior Secured Discount Notes Due 2006 (the "Discount Notes") were issued by Gothic Energy Corporation under an indenture (the "Discount Note Indenture") dated April 21, 1998 in such aggregate principal amount and at such rate of interest as generated gross proceeds of \$60,155,000. Gothic



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

also issued seven-year warrants to purchase, at an exercise price of \$2.40 per share, 825,000 shares of Gothic's Common Stock with the Discount Notes. The estimated fair value of such warrants was approximately \$554,000 on the date of issuance. The Discount Notes were issued at a substantial discount from their principal amount and accrete at a rate per annum of 14 1/8%, compounded semi-annually, to an aggregate principal amount of \$104,000,000 at May 1, 2002. Thereafter, the Discount Notes accrue interest at the rate of 14 1/8% per annum, payable in cash semi-annually in arrears on May 1 and November 1 of each year, commencing November 1, 2002. The Discount Notes mature on May 1, 2006 and are collateralized by a first priority lien against the outstanding shares of capital stock of Production Corp. The carrying amount of the Discount Notes as of December 31, 1999 was \$75,857,000.

Gothic may, at its option, at any time on or after May 1, 2003, redeem all or any portion of the Discount Notes at redemption prices decreasing from 107.063% if redeemed in the 12-month period beginning May 1, 2003 to 100.00% if redeemed in the 12-month period beginning May 1, 2005 and thereafter plus, in each case, accrued and unpaid interest thereon. Notwithstanding the foregoing, at any time prior to May 1, 2003, Gothic may, at its option, redeem all or any portion of the Discount Notes at the Make-Whole Price (as defined in the Discount Note Indenture) plus accrued or unpaid interest to the date of redemption. In addition, in the event Gothic consummates one or more Equity Offerings (as defined in the Discount Note Indenture) on or prior to May 1, 2001, Gothic, at its option, may redeem up to 33 1/3% of the Accreted Value (as defined in the Discount Note Indenture) of the Discount Notes with all or a portion of the aggregate net proceeds received by Gothic from such Equity Offering or Equity Offerings at a redemption price of 114.125% of the Accreted Value of the Discount Notes so redeemed, plus accrued and unpaid interest thereon to the redemption date; provided, however, that following such redemption, at least 66 2/3% of the Accreted Value of the Discount Notes remains outstanding.

Following the occurrence of any Change of Control (as defined in the Discount Note Indenture), Gothic will offer to repurchase all outstanding Discount Notes at a purchase price equal to, prior to May 1, 2002, 101% of the Accreted Value of the Discount Notes on the date of repurchase, plus accrued and unpaid interest to the date of repurchase and thereafter, 101% of the aggregate principal amount of the Discount Notes plus accrued and unpaid interest and Liquidated Damages, if any, to the date of repurchase.

The Discount Note Indenture under which the Discount Notes were issued contains certain covenants limiting Gothic with respect to or imposing restrictions on the incurrance of additional indebtedness, the payment of dividends, distributions and other restricted payments, the sale of assets, creating, assuming or permitting to exist any liens (with certain exceptions) on its assets, mergers and consolidations (subject to meeting certain conditions), sale leaseback transactions, and transactions with affiliates, among other covenants.

Events of default under the Discount Note Indenture include the failure to pay any payment of principal or premium when due, failure to pay for 30 days any payment of interest when due, failure to make any optional redemption payment when due, failure to perform any covenants relating to mergers or consolidations, failure to perform any other covenant or agreement not remedied within 30 days of notice from the Trustee under the Discount Note Indenture or the holders of 25% in principal amount of the Discount Notes then outstanding, defaults under other indebtedness of Gothic causing the acceleration of the due date of indebtedness having an outstanding principal amount of \$10,000,000 or more, the failure of Production Corp. to be a wholly owned subsidiary of Gothic Energy Corporation, and certain other bankruptcy and other court proceedings, among other matters.

## NOTE 5. STOCKHOLDERS' EQUITY

In January 1999, Gothic issued 30,000 shares of its common stock as part of a severance package to a former employee. On August 17, 1999, Chesapeake Energy Corporation fully exercised the common stock

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

purchase warrant issued to it in April 1998 and purchased 2,394,125 shares of Gothic's common stock. The warrant had been issued to Chesapeake as part of the transaction involving the sale to Chesapeake of shares of Gothic's Series B Senior Redeemable Preferred Stock, a 50% interest in Gothic's Arkoma basin natural gas and oil properties and a 50% interest in substantially all of Gothic's undeveloped acreage. The shares were issued pursuant to the cashless exercise provisions of the warrant that permitted Chesapeake to surrender the right to exercise the warrant for a number of shares of Gothic's common stock having a market value equivalent to the total exercise price. The total exercise price was \$23,941.25 or \$0.01 per share. An aggregate of 45,121 warrants were surrendered in payment of the total exercise price. The shares of common stock were issued pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended, afforded by section 4 (2) thereof.

## Preferred Stock Offering

Series B Preferred Stock and Warrant. On April 27, 1998, as part of the Recapitalization, Gothic issued 50,000 shares of Series B Preferred Stock with an aggregate liquidation preference of \$50,000,000 and the warrant to purchase 2,439,246 shares of Gothic's Common Stock, discussed above. The estimated fair value of such warrant was \$4,879,000 on the date of issuance. The Series B Preferred Stock, with respect to dividend rights and rights on liquidation, winding-up and dissolution, ranks senior to all classes of Common Stock of Gothic and senior to all other classes or series of any class of preferred stock. Holders of the Series B Preferred Stock are entitled to receive dividends payable at a rate per annum of 12% of the aggregate Liquidation Preference of the Series B Preferred Stock payable in additional shares of Series B Preferred Stock; provided that after April 1, 2000, at Gothic's option, it may pay the dividends in cash. Dividends are cumulative and will accrue from the date of issuance and are payable quarterly in arrears.

At any time prior to April 30, 2000, the Series B Preferred Stock may be redeemed at the option of Gothic in whole or in part, at 105% of the Liquidation Preference payable in cash out of the net proceeds from a public or private offering of any equity security, plus accrued and unpaid dividends (whether or not declared), which shall also be paid in cash. At any time on or after April 30, 2000, the Series B Preferred Stock may be redeemed at the option of Gothic in whole or in part, in cash, at a redemption price equal to the Liquidation Preference.

Gothic is required to redeem the Series B Preferred Stock on June 30, 2008 at a redemption price equal to the Liquidation Preference payable in cash or, at the option of Gothic, in shares of Common Stock valued at the fair market value at the date of such redemption.

Except as required by Oklahoma law, the holders of Series B Preferred Stock are not entitled to vote on any matters submitted to a vote of the stockholders of Gothic.

The Series B Preferred Stock is convertible at the option of the holders on or after April 30, 2000 into the number of fully paid and non-assessable shares of Common Stock determined by dividing the Liquidation Preference by the higher of (i) \$2.04167 or (ii) the fair market value on the date the Series B Preferred Stock is converted. Notwithstanding the foregoing, no holder or group shall be able to convert any shares of Series B Preferred Stock to the extent that the conversion of such shares would cause such holder or group to own more than 19.9% of the outstanding Common Stock of Gothic. (See Note 3)

## Other Warrants

In connection with past financing arrangements and as compensation for consulting and professional services, Gothic has issued other warrants to purchase its common stock.

## GOTHIC ENERGY CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

A summary of the status of Gothic's warrants as of December 31, 1999, 1998 and 1997, and changes during the years ended December 31, 1999 and 1998 is presented below:

	WARRANTS OUTSTANDING		WARRANTS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
Balance at December 31, 1997.....	11,404,531	\$2.54	11,404,531	\$2.54
Warrants granted.....	5,940,024	1.06		
Balance at December 31, 1998.....	17,344,555	\$2.00	17,344,555	\$2.00
Warrants exercised/expired.....	(2,639,246)	(.20)		
Balance at December 31, 1999.....	14,705,309	\$2.33	14,705,309	\$2.33

The following table summarizes information about Gothic's warrants, which were outstanding, and those which were exercisable, as of December 31, 1999:

PRICE RANGE	WARRANTS OUTSTANDING			WARRANTS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE LIFE	WEIGHTED AVERAGE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE PRICE
\$ .34-\$3.00.....	14,705,309	2.0 years	\$2.33	14,705,309	\$2.33

## NOTE 6. STOCK OPTIONS

## Incentive Stock Option Plan

Gothic has an incentive stock option and non-statutory option plan (the "Plan"), which provides for the issuance of options to purchase up to 2,500,000 shares of Common Stock to key employees and Directors. The incentive stock options granted under the Plan are generally exercisable for a period of ten years from the date of the grant, except that the term of an incentive stock option granted under the Plan to a stockholder owning more than 10% of the outstanding common stock must not exceed five years and the exercise price of an incentive stock option granted to such a stockholder must not be less than 110% of the fair market value of the common stock on the date of grant. The exercise price of a non-qualified option granted under the Plan may not be less than 40% of the fair market value of the common stock at the time the option is granted. As of December 31, 1999 and 1998, options to purchase 2,500,000 and 2,095,000 shares of common stock, respectively, had been issued under the Plan. Half of the options are exercisable after the completion of one year of future service as an employee or director with the remaining options being exercisable upon completion of the second year of future service. No non-qualified options have been issued under the Plan.

## Omnibus Incentive Plan

On August 13, 1996 at the Annual Shareholders' Meeting, the shareholders approved the 1996 Omnibus Incentive Plan and the 1996 Non-Employees Stock Option Plan. The 1996 Omnibus Incentive Plan provides for compensatory awards of up to an aggregate of 1,000,000 shares of Common Stock of Gothic to officers, directors and certain other key employees. Awards may be granted for no consideration and consist of stock options, stock awards, stock appreciation rights, dividend equivalents, other stock-based awards (such as phantom stock) and performance awards consisting of any combination of the foregoing. Generally, options will be granted at an exercise price equal to the lower of (i) 100% of the fair market value of the shares of Common Stock on the date of grant or (ii) 85% of the fair market value of the shares of Common Stock on the date of exercise. Each option will be exercisable for the period or

## GOTHIC ENERGY CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

periods specified in the option agreement, which will generally not exceed 10 years from the date of grant. As of December 31, 1999, options to purchase 1,000,000 shares of common stock had been issued under the Omnibus Incentive Plan.

## Non-Employee Stock Option Plan

The 1996 Non-Employee Stock Option Plan provides a means by which non-employee Directors of Gothic and consultants to Gothic can be given an opportunity to purchase stock in Gothic. The Plan provides that a total of 1,000,000 shares of Gothic's Common Stock may be issued pursuant to options granted under the Non-Employee Plan, subject to certain adjustments. The exercise price for each option granted under the Non-Employee Plan will not be less than the fair market value of the Common Stock on the date of grant. Each option will be exercisable for the period or periods specified in the option agreement, which can not exceed 10 years from the date of grant. Options granted to Directors will terminate thirty (30) days after the date the Director is no longer a Director of Gothic. As of December 31, 1999 and 1998, options to purchase 1,000,000 and 600,000 shares of common stock, respectively, had been issued under the Non-Employee Plan.

A summary of the status of Gothic's stock options as of December 31, 1999, 1998 and 1997, and changes during December 31, 1999 and 1998, is presented below:

	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
Balance at December 31, 1997.....	2,690,000	\$1.17	1,850,000	\$1.52
Options granted.....	1,285,000	.40		
Options forfeited.....	(545,000)	.40		
Balance at December 31, 1998.....	3,430,000	\$1.00	1,927,500	\$1.47
Options granted.....	2,185,000	.39		
Options forfeited.....	(380,000)	.40		
Balance at December 31, 1999.....	5,235,000	\$0.79	2,807,500	\$1.13

The following table summarizes information about Gothic's stock options which were outstanding, and those which were exercisable, as of December 31, 1999:

PRICE RANGE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE LIFE	WEIGHTED AVERAGE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE PRICE
\$1.50-\$3.30	735,000	1.2 years	\$3.21	735,000	\$3.21
\$0.15-\$0.53	4,500,000	3.5 years	\$0.40	2,072,500	\$0.40
	5,235,000			2,807,500	
	=====			=====	

Gothic applies Accounting Principles Board Opinion No. 25 in accounting for stock options granted to employees, including directors, and Statement of Financial Accounting Standards No. 123 ("SFAS No. 123") for stock options and warrants granted to non-employees. No compensation cost has been recognized in 1999 or 1998.

## GOTHIC ENERGY CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Had compensation been determined on the basis of fair value pursuant to SFAS No. 123, net loss and loss per share would have been increased as follows:

	1999	1998
	-----	-----
	(IN THOUSANDS)	
Net loss available for common shares:		
As reported.....	\$(25,976)	\$(140,383)
	=====	=====
Pro Forma.....	\$(26,439)	\$(141,232)
	=====	=====
Basic and diluted loss per share:		
As reported.....	\$ (1.51)	\$ (8.63)
	=====	=====
Pro Forma.....	\$ (1.54)	\$ (8.68)
	=====	=====

The fair value of each option granted is estimated using the Black-Scholes model. Gothic's stock volatility was 0.95 and 0.81 in 1999 and 1998, respectively, based on previous stock performance. Dividend yield was estimated to remain at zero with an average risk free interest rate of 5.59 percent and 4.81 percent in 1999 and 1998, respectively. Expected life was three years for options issued in both 1999 and 1998 based on the vesting periods involved and the make up of participating employees within each grant. Fair value of options granted during 1999 and 1998 under the Stock Option Plan were \$646,000 and \$643,000, respectively.

## NOTE 7. INCOME TAXES

Deferred tax assets and liabilities are comprised of the following at December 31, 1999 (in thousands):

Deferred tax assets:	
Gas balancing liability.....	\$ 1,386
Net operating loss carryforwards.....	42,371
Depletion carryforwards.....	257
Tax over book basis of natural gas and oil properties.....	14,423
Accrued wages.....	119
	-----
Gross deferred tax assets.....	58,556
Deferred tax liabilities:	
Deferred lease operating expenses.....	(556)
	-----
Gross deferred tax liabilities.....	(556)
Net deferred tax assets.....	58,000
Valuation allowance.....	(58,000)
	-----
	\$ --
	=====

Net operating losses of approximately \$104,679,000 are available for future use against taxable income. These net operating loss carryforwards ("NOL") expire in the years 2010 through 2019.

In addition, an acquisition in January, 1996 made available approximately \$6,147,000 of net operating loss carryforwards and \$675,000 of depletion carryforwards generated prior to the acquisition. However, the loss carryforwards and depletion carryforwards are limited annually under Internal Revenue Code Section 382 due to a change in ownership. The net operating loss carryforwards expire in the years 2000 through 2010 and the depletion carryforwards can be carried forward indefinitely.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Pursuant to Section 382 of the Internal Revenue Code of 1986, as amended, in the event that a substantial change in the ownership of Gothic were to occur in the future (whether through the sale of stock by a significant shareholder or shareholders, new issuances of stock by Gothic, conversions, a redemption, recapitalization, reorganization, any combination of the foregoing or any other method) so that ownership of more than 50% of the value of Gothic's capital stock changed during any three-year period, Gothic's ability to utilize its NOL's could be substantially limited.

Realization of the net deferred tax asset is dependent on generating sufficient taxable income in future periods. Gothic has recorded a 100% valuation allowance, as it is more likely than not that realization will not occur in the future.

## NOTE 8. COMMITMENTS AND CONTINGENCIES

Gothic has entered into an employment agreement with its President effective January 1, 1999. The President currently receives a base salary of \$225,000 per year. In addition, he is to receive a cash bonus as may be determined by Gothic's Board of Directors. The President is also entitled to participate in such incentive compensation and benefit programs as Gothic makes available. The term of the agreement is for a period of three years and at the end of the first year and at the end of each succeeding year the agreement is automatically extended for one year such that at the end of each year there will automatically be three years remaining on the term of the agreement. The President can terminate the agreement at the end of the initial term and any succeeding term on not less than six months notice. In the event the employment agreement is terminated by Gothic (other than for cause, as defined), the President is entitled to receive a payment representing all salary due under the remaining full term of his agreement and Gothic is obligated to continue his medical insurance and other benefits provided under the agreement in effect for a period of one year after such termination. In the event of a change in control, as defined, of Gothic, the President has the right to terminate his employment agreement with Gothic within sixty days thereafter, whereupon Gothic would be obligated to pay to him a sum equal to three years of his base salary under the agreement, plus a lump sum payment of \$250,000.

Gothic has also entered into an employment agreement with its Chief Financial Officer effective January 1, 1999. The Chief Financial Officer currently receives a base salary of \$187,500 per year. In addition, he is to receive a cash bonus as may be determined by Gothic's Board of Directors. The CFO is also entitled to participate in such incentive compensation and benefit programs as Gothic makes available. The term of the agreement is for a period of three years and at the end of the first year and at the end of each succeeding year the agreement is automatically extended for one year such that at the end of each year there will automatically be three years remaining on the term of the agreement. The CFO can terminate the agreement at the end of the initial term and any succeeding term on not less than six months notice. In the event the employment agreement is terminated by Gothic (other than for cause, as defined), the CFO is entitled to receive a payment representing all salary due under the remaining full term of his agreement, and Gothic is obligated to continue his medical insurance and other benefits provided under the agreement in effect for a period of one year after such termination. In the event of a change in control, as defined, of Gothic, the CFO has the right to terminate his employment with Gothic within sixty days thereafter, whereupon Gothic would be obligated to pay to him a sum equal to three years base salary, plus a lump sum payment of \$200,000.

Gothic leases its corporate offices and certain office equipment and automobiles under non-cancelable operating leases. Rental expense under non-cancelable operating leases was \$240,000 and \$190,000 for the years ended December 31, 1999 and 1998, respectively.

## GOTHIC ENERGY CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Remaining minimum annual rentals under non-cancelable lease agreements subsequent to December 31, 1999 are as follows:

2000.....	327,000
2001.....	295,000
2002.....	282,000
2003.....	267,000
2004.....	247,000

Gothic is not a defendant in any pending legal proceedings other than routine litigation incidental to its business. While the ultimate results of these proceedings cannot be predicted with certainty, Gothic does not believe that the outcome of these matters will have a material adverse effect on Gothic's financial position or results of operations.

## NOTE 9. BENEFIT PLAN

Gothic maintains a 401(k) Plan for the benefit of its employees. The Plan was implemented in October 1997. The Plan permits employees to make contributions on a pre-tax salary reduction basis. Gothic makes limited matching contributions to the Plan, and may also make other discretionary contributions. Gothic's contributions for 1999 and 1998 were \$85,000 and \$62,000, respectively.

## NOTE 10. MAJOR CUSTOMERS

During the year ended December 31, 1999, Gothic was a party to contracts whereby it sold 56% of its natural gas production to CMS Continental Natural Gas Corporation ("Continental"), and 47% of its oil production to Duke Energy, Inc. Gothic has a ten-year marketing agreement, whereby the majority of the natural gas associated with the Amoco Acquisition will be sold to Continental, at market prices, under this agreement.

## NOTE 11. RELATED PARTY TRANSACTIONS

During 1997, Gothic made advances totaling \$336,000 to two officers and directors of Gothic. In February 1998, \$168,000 was received in connection with a severance agreement. The balance outstanding on the remaining advance was \$179,000 as of December 31, 1998 and this amount was forgiven by Gothic during 1999.

## NOTE 12. SUMMARIZED FINANCIAL INFORMATION

Production Corp. was organized in March 1998 as a wholly owned subsidiary of Gothic Energy Corporation. On April 27, 1998, Gothic Energy Corporation transferred to Production Corp. its ownership of all its natural gas and oil properties. Following is the summarized financial information related to Production Corp. as of December 31, 1999 and for the years ended December 31, 1999 and 1998 (in thousands):

	AS OF DECEMBER 31, 1999		
	GOTHIC ENERGY CORPORATION	GOTHIC PRODUCTION CORPORATION	GOTHIC ENERGY CORPORATION CONSOLIDATED
Current assets.....	\$ --	\$ 11,447	\$ 11,447
Non-current assets.....	1,772(2)	225,178	226,950
Current liabilities.....	--	15,927	15,927
Non-current liabilities.....	75,857(3)	247,648	323,505

## GOTHIC ENERGY CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## FOR THE YEAR ENDED DECEMBER 31, 1999

	GOTHIC ENERGY CORPORATION	GOTHIC PRODUCTION CORPORATION	GOTHIC ENERGY CORPORATION CONSOLIDATED
Total revenues.....	\$ --	\$ 55,624	\$ 55,624
Operating costs and expenses.....	179(4)	35,708	35,887
Interest expense and amortization of debt issuance cost.....	9,958	28,030	37,988
Net loss.....	(10,137)	(7,172)	(17,309)

## FOR THE YEAR ENDED DECEMBER 31, 1998

	GOTHIC ENERGY CORPORATION	GOTHIC PRODUCTION CORPORATION(1)	GOTHIC ENERGY CORPORATION CONSOLIDATED
Total revenues.....	\$ 21,033	\$ 32,000	\$ 53,033
Operating costs and expenses.....	16,172	23,781	39,953
Provision for impairment of natural gas and oil properties.....	--	76,000	76,000
Interest expense and amortization of debt issuance cost.....	16,821	18,617	35,438
Loss before extraordinary item....	(12,408)	(85,822)	(98,230)
Net loss.....	(43,842)	(85,847)	(129,689)

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- (1) Since the Recapitalization on April 27, 1998
- (2) Includes unamortized debt issuance costs
- (3) Includes 14 1/8% Senior Secured Discount Notes
- (4) Officer compensation

## NOTE 13. SUPPLEMENTARY NATURAL GAS AND OIL INFORMATION

## FINANCIAL DATA

The following supplemental historical and reserve information is presented in accordance with Financial Accounting Standards Board Statement No. 69, "Disclosures About Oil and Gas Producing Activities."

## Capitalized Costs

The aggregate amounts of capitalized costs relating to natural gas and oil producing activities, net of valuation allowances, and the aggregate amounts of the related accumulated depreciation, depletion, and amortization at December 31, 1999 were as follows:

	1999
	(IN THOUSANDS)
Proved properties.....	\$258,818
Unproved properties, not subject to depreciation, depletion and amortization(1).....	5,473
Less: Accumulated depreciation, depletion, and amortization.....	(53,137)
Net natural gas and oil properties.....	\$211,154
	=====

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- (1) Gothic expects to evaluate the unproved properties during the next two years.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## Costs Incurred

Costs incurred in natural gas and oil property acquisition, exploration and development activities for the years ended December 31, 1999 and 1998 were as follows:

	1999	1998
	-----	-----
	(IN THOUSANDS)	
Proved property acquisition.....	\$ 1,499	\$225,103
Unproved property acquisition.....	2,611	2,109
Development costs.....	18,445	16,270
	-----	-----
Total costs incurred.....	\$22,555	\$243,482
	=====	=====

## NATURAL GAS AND OIL RESERVES DATA (UNAUDITED)

## Estimated Quantities

Natural gas and oil reserves cannot be measured exactly. Estimates of natural gas and oil reserves require extensive judgments of reservoir engineering data and are generally less precise than other estimates made in connection with financial disclosures.

Proved reserves are those quantities which, upon analysis of geological and engineering data, appear with reasonable certainty to be recoverable in the future from known natural gas and oil reservoirs under existing economic and operating conditions. Proved developed reserves are those reserves which can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required.

Estimates of natural gas and oil reserves require extensive judgments of reservoir engineering data as explained above. Assigning monetary values to such estimates does not reduce the subjectivity and changing nature of such reserve estimates. Indeed, the uncertainties inherent in the disclosure are compounded by applying additional estimates of the rates and timing of production and the costs that will be incurred in developing and producing the reserves. The information set forth herein is therefore subjective and, since judgments are involved, may not be comparable to estimates submitted by other natural gas and oil producers. In addition, since prices and costs do not remain static and no price or cost escalations or de-escalations have been considered, the results are not necessarily indicative of the estimated fair market value of estimated proved reserves nor of estimated future cash flows and significant revisions could occur in the near term. Accordingly, these estimates are expected to change as future information becomes available. All of Gothic's reserves are located onshore in the states of Oklahoma, Texas, New Mexico, Arkansas and Kansas.

## GOTHIC ENERGY CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following unaudited table, which is based on reports of Lee Keeling and Associates, Inc., sets forth proved natural gas and oil reserves:

	1999		1998	
	Bbls	Mcf	Bbls	Mcf
	(IN THOUSANDS)			
Proved Reserves:				
Beginning of year.....	1,761	306,668	3,585	127,460
Revisions of previous estimates.....	319	6,598	(872)	39,577
Purchases of reserves in place.....	--	1,402	1,362	233,007
Production.....	(158)	(25,477)	(257)	(24,455)
Sales of reserves in place.....	--	--	(2,057)	(68,921)
End of year.....	1,922	289,191	1,761	306,668
Proved Developed:				
Beginning of year.....	1,523	254,762	2,503	91,690
End of year.....	1,683	251,631	1,523	254,762

## Standardized Measure of Discounted Future Net Cash Flows

Future net cash inflows are based on the future production of proved reserves of natural gas and crude oil as estimated by Lee Keeling and Associates, Inc., independent petroleum engineers, by applying current prices of natural gas and oil to estimated future production of proved reserves. The average prices used in determining future cash inflows for natural gas and oil as of December 31, 1999, were \$1.89 per mcf, and \$24.33 per barrel, respectively. Future net cash flows are then calculated by reducing such estimated cash inflows by the estimated future expenditures (based on current costs) to be incurred in developing and producing the proved reserves and by the estimated future income taxes.

Estimated future income taxes are computed by applying the appropriate year-end statutory tax rate to the future pretax net cash flows relating to Gothic's estimated proved natural gas and oil reserves. The estimated future income taxes give effect to permanent differences and tax credits and allowances.

Included in the estimated standardized measure of future cash flows are certain capital projects (future development costs). Gothic estimates the capital required to develop its undeveloped natural gas and oil reserves during 2000 to be approximately \$23,000,000. Gothic's planned financial arrangements are discussed in Notes 2 and 4. If such capital is not employed, the estimated future cash flows will be negatively impacted.

The following table sets forth Gothic's unaudited estimated standardized measure of discounted future net cash flows.

	DECEMBER 31, 1999	DECEMBER 31, 1998
	(IN THOUSANDS)	
Cash Flows Relating to Proved Reserves:		
Future cash inflows.....	\$ 596,216	\$ 573,604
Future production costs.....	(139,458)	(141,253)
Future development costs.....	(26,969)	(37,028)
Future income tax expense.....	(30,113)	(47,264)
Ten percent annual discount factor.....	399,676	348,059
Standardized measure of discounted future net cash flows.....	(201,291)	(169,297)
	\$ 198,385	\$ 178,762

## GOTHIC ENERGY CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table sets forth changes in the standardized measure of discounted future net cash flows:

	DECEMBER 31, 1999	DECEMBER 31, 1998
	-----	-----
	(IN THOUSANDS)	
Standardized measure of discounted future cash flows -- beginning of period.....	\$178,762	\$ 94,102
Sales of natural gas and oil produced, net of operating expenses.....	(43,362)	(38,585)
Purchases of reserves-in-place.....	1,000	231,184
Sales of reserves-in-place.....	--	(62,933)
Revisions of previous quantity estimates and changes in sales prices and production costs.....	44,109	(54,416)
Accretion of discount.....	17,876	9,410
	-----	-----
Standardized measure of discounted future cash flows -- end of period.....	\$198,385	\$178,762
	=====	=====

## ANNEX A

## AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this "Agreement") is made and entered into this 8th day of September, 2000, by and among CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation ("Parent"), CHESAPEAKE MERGER 2000 CORP., an Oklahoma corporation ("Sub"), and GOTHIC ENERGY CORPORATION, an Oklahoma corporation ("Gothic").

## RECITALS

WHEREAS, the board of directors of each of Parent, Sub and Gothic has determined that it is in the best interest of its respective stockholders for Parent to acquire Gothic by means of the merger of Sub with and into Gothic upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, for federal income tax purposes, the parties hereto intend that such merger qualify as a tax free "reorganization" within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended;

WHEREAS, the board of directors of Gothic has approved the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby and has resolved and agreed to recommend that the stockholders of Gothic approve the same; and

WHEREAS, Parent, Sub and Gothic desire to make certain representations, warranties, covenants and agreements in connection with such merger and also to prescribe various conditions to such merger.

NOW, THEREFORE, for and in consideration of the recitals and the mutual covenants and agreements set forth in this Agreement, the parties hereto hereby agree as follows:

1. DEFINITIONS. As used in this Agreement, each of the following terms has the meaning given in this paragraph or in the paragraphs referred to below:

- 1.1 Affiliate(s). With respect to any Person, each other Person that directly or indirectly (through one or more intermediaries or otherwise) controls, is controlled by, or is under common control with such Person.
- 1.2 Agreement. This Agreement and Plan of Merger, as amended, supplemented or modified from time to time.
- 1.3 Alternative Proposal. As defined in paragraph 5.4.2.
- 1.4 Bank Credit Agreement. The Loan Agreement dated April 27, 1998, by and among Gothic, the Gothic Subsidiary and Bank One Corp., as amended May 7, 1999 and March 27, 2000.
- 1.5 CERCLA. The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended.
- 1.6 Certificate of Merger. The Certificate of Merger, prepared and executed in accordance with the applicable provisions of the OGCA, filed with the Secretary of State of Oklahoma to reflect the consummation of the Merger.
- 1.7 Closing. The closing of the Merger and the consummation of the other transactions contemplated by this Agreement.
- 1.8 Closing Date. Unless otherwise agreed by the Parent and Gothic in writing, the date on which the Closing occurs, which will be the later of: (a) the first business day following the day on which the Gothic Stockholder Meeting is held and the conditions to the Merger are satisfied or waived; or (b) January 15, 2001.
- 1.9 Code. The Internal Revenue Code of 1986, as amended.

- 1.10 Confidentiality Agreement. The letter agreements dated January 18, 1999 and October 7, 1999 between Gothic and Parent relating to Gothic's furnishing of information to Parent in connection with Parent's evaluation of a possible transaction between Parent and Gothic, as modified by that certain letter agreement dated June 6, 2000 relating to Gothic's permission for the Parent to negotiate the purchase of the Senior Discount Notes.
- 1.11 Contract Employee. As defined in paragraph 5.14.
- 1.12 Defensible Title. Such right, title and interest to an asset that is: (a) evidenced by an instrument or instruments filed of record in accordance with the conveyance and recording laws of the applicable jurisdiction to the extent necessary to prevail against competing claims of bona fide purchasers for value without notice; (b) subject to Permitted Encumbrances; and (c) free and clear of all other Liens, claims, infringements, burdens or other defects.
- 1.13 Dissenting Stockholders. Any holder or holders of Gothic Common Stock who validly perfect appraisal rights under Section 1091 of the OGCA.
- 1.14 Effective Time. As defined in paragraph 2.6.
- 1.15 Environmental Law. Any federal, state, local or foreign statute, code, ordinance, rule, regulation, policy, guideline, permit, consent, approval, license, judgment, order, writ, decree, injunction or other authorization relating to: (a) emissions, discharges, releases or threatened releases of Hazardous Materials into the natural environment (including, without limitation, ambient air, soil, sediments, land surface or subsurface, buildings or facilities, surface water, groundwater, publicly-owned treatment works, septic systems or land); (b) the generation, treatment, storage, disposal, use, handling, manufacture, transportation or shipment of Hazardous Materials; or (c) the pollution of the environment, solid waste or operation or reclamation of mines.
- 1.16 ERISA. The Employee Retirement Income Security Act of 1974, as amended from time to time.
- 1.17 Exchange. The New York Stock Exchange, Inc.
- 1.18 Exchange Act. The Securities Exchange Act of 1934, as amended from time to time.
- 1.19 Exchange Agent. UMB Bank, N.A., the transfer agent for shares of Parent Common Stock.
- 1.20 Exchange Fund. As defined in paragraph 2.4.1.
- 1.21 Exchange Ratio. The quotient obtained by dividing the Merger Consideration by the Gothic Aggregate Number as of the date of the computation.
- 1.22 GAAP. Generally accepted accounting principles, as recognized by the U.S. Financial Accounting Standards Board (or any generally recognized successor).
- 1.23 Gothic. Gothic Energy Corporation, an Oklahoma corporation.
- 1.24 Gothic Aggregate Number. The number equal to: (a) the total number of shares of Gothic Common Stock that are issued and outstanding as of the Effective Time; plus (b) the aggregate number of shares of Gothic Common Stock issuable as of the Effective Time under the in the money Gothic Warrants identified in Section 1.24 of the Gothic Disclosure Schedule; less (c) to the extent included in clause (a) above, any Gothic Common Stock owned by the Parent Companies as of the date of this Agreement or issuable to the Parent Companies with respect to any convertible securities, options, warrants or other rights to acquire Gothic Common Stock.
- 1.25 Gothic Certificate. A certificate representing shares of Gothic Common Stock.
- 1.26 Gothic Common Stock. Gothic's common stock, \$0.01 par value per share.
- 1.27 Gothic Companies. Gothic and the Gothic Subsidiary.

- 1.28 Gothic Disclosure Schedule. The disclosure schedule attached hereto entitled Gothic Disclosure Schedule and any documents listed on such disclosure schedule or expressly incorporated therein by reference.
- 1.29 Gothic Employee(s). As defined in paragraph 5.14.
- 1.30 Gothic Employee Benefit Plans. As defined in paragraph 3.15.
- 1.31 Gothic Financial Statements. The audited and unaudited consolidated financial statements of the Gothic Companies (including the related notes) included (or incorporated by reference) in Gothic's Annual Report on Form 10-K for the year ended December 31, 1999, and Gothic's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, in each case as filed with the SEC.
- 1.32 Gothic Material Agreements. The: (a) Bank Credit Agreement; (b) Senior Secured GPC Notes; (c) Senior Discount Notes; (d) all agreements or instruments filed as material contracts with the Gothic SEC Documents; or (e) any other written or oral agreements, contracts, commitments or understandings to which any of the Gothic Companies is a party, by which any of the Gothic Companies is directly or indirectly bound, or to which any asset of any of the Gothic Companies may be subject, involving total value, consideration or obligation in excess of One Million Dollars (\$1,000,000.00).
- 1.33 Gothic Permits. As defined in paragraph 3.12.
- 1.34 Gothic Plans. The stock option plans and related agreements listed on Section 2.3.4 of the Gothic Disclosure Schedule.
- 1.35 Gothic Preferred Stock. Gothic's Series B Senior Redeemable Preferred Stock, par value \$.05 per share, together with the right to receive accrued and unpaid dividends.
- 1.36 Gothic Proposal. The proposal to approve this Agreement and the Merger, which proposal is to be presented to the stockholders of Gothic in the Proxy Statement/Prospectus.
- 1.37 Gothic Representative. Any director, officer, employee, agent, advisor (including legal, accounting and financial advisors), Affiliate or other representative of any of the Gothic Companies.
- 1.38 Gothic SEC Documents. As defined in paragraph 3.5.
- 1.39 Gothic Severance Policy. As defined in paragraph 5.14.
- 1.40 Gothic Stock Option(s). Any unexpired option or other right to purchase Gothic Common Stock issued under the Gothic Plans and outstanding as of the Effective Time (regardless of whether vested, unvested or currently exercisable).
- 1.41 Gothic Stockholder Meeting. The meeting of the stockholders of Gothic for the purpose of voting on this Agreement and the Merger.
- 1.42 Gothic Subsidiary. Gothic Production Corporation, an Oklahoma corporation.
- 1.43 Gothic Warrants. Any unexpired warrants or other right to acquire Gothic Common Stock or any security convertible or exchangeable into Gothic Common Stock (excluding all Gothic Stock Options and the Gothic Preferred Stock) and outstanding as of the Effective Time (regardless of whether vested, unvested or currently exercisable).
- 1.44 Governmental Authority. Any national, state, county or municipal government, (whether domestic or foreign), agency, board, bureau, commission, court, department or other instrumentality of any such government, or any arbitrator in any case that has jurisdiction over any of the Gothic Companies, Parent or Sub or any of their respective properties or assets.
- 1.45 Hazardous Material. Any: (a) "hazardous substance" as defined by CERCLA; (b) "hazardous waste" as defined by the Resource Conservation and Recovery Act, as amended; (c) hazardous,

dangerous or toxic chemical, material, waste or substance, within the meaning of and regulated by any Environmental Law; (d) radioactive material, including any naturally occurring radioactive material, and any source, special or byproduct material as defined in 42 U.S.C. 2011 et seq. and any amendments or authorizations thereof; (e) asbestos-containing materials in any form or condition; or (f) polychlorinated biphenyls in any form or condition.

- 1.46 HSR Act. The Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended from time to time.
- 1.47 Hydrocarbons. Oil, condensate, gas, casinghead gas and other liquid or gaseous hydrocarbons.
- 1.48 Indemnified Parties. As defined in paragraph 5.13.
- 1.49 Irrevocable Proxy. The irrevocable proxy in the form attached hereto as Exhibit "1.49" to be executed by the shareholders of Gothic who are on Gothic's board of directors and the executive officers of Gothic granting to Parent the right to vote such holders' Gothic Common Stock in connection with the stockholders' vote concerning the Merger and any and all related matters.
- 1.50 Lien(s). Any lien, mortgage, security interest, pledge, deposit, production payment, restriction, burden, encumbrance, rights of a vendor under any title retention or conditional sale agreement, or lease or other arrangement substantially equivalent thereto.
- 1.51 Major Gothic Stockholder(s). Any holders of Gothic Common Stock who are Affiliates of Gothic and who, as a result of the Merger, will hold in excess of three percent (3%) of the issued and outstanding shares of Parent Common Stock.
- 1.52 Material Adverse Effect. When used with respect to: (a) Gothic, is an event or condition that has an adverse financial impact of more than One Million Dollars (\$1,000,000.00) on the Gothic Companies (taken as a whole) or a result or consequence that would materially and adversely affect the condition (financial or otherwise), results of operations or businesses of the Gothic Companies (taken as a whole) or the aggregate value of their assets, would materially impair the ability of the Gothic Companies (taken as a whole) to own, hold, develop and operate their assets, or would impair Gothic's ability to perform its obligations hereunder or consummate the transactions contemplated hereby; and (b) Parent, is an event or condition that has an adverse financial impact of more than Five Million Dollars (\$5,000,000.00) on the Parent Companies (taken as a whole) or a result or consequence that would materially and adversely affect the condition (financial or otherwise), results of operations or businesses of the Parent Companies (taken as a whole) or the aggregate value of their assets, would materially impair the ability of the Parent Companies (taken as a whole) to own, hold, develop and operate their assets, or would impair Parent's or Sub's ability to perform its obligations hereunder or consummate the transactions contemplated hereby.
- 1.53 Merger. As defined in paragraph 2.
- 1.54 Merger Consideration. Four Million (4,000,000) shares of Parent Common Stock.
- 1.55 Net Revenue Interests. Gothic's overall interest in Hydrocarbons produced from or attributable to Gothic's Oil and Gas Interests, after deducting all lessor's royalties, overriding royalties, production payments, and other interests or burdens on Hydrocarbons produced from Gothic's oil and gas properties or any well thereon.
- 1.56 OGCA. The Oklahoma General Corporation Act, as amended.
- 1.57 Oil and Gas Interests. Any and all: (a) direct and indirect interests in and rights with respect to oil, gas, mineral and related properties and assets of any kind and nature, direct or indirect, including working, royalty and overriding royalty interests, production payments, operating rights, net profits interests, other non-working interests and non-operating interests; (b) interests in and rights with respect to Hydrocarbons and other minerals or revenues therefrom and contracts in connection therewith and claims and rights thereto (including oil and gas leases, operating

agreements, unitization and pooling agreements and orders, division orders, transfer orders, mineral deeds, royalty deeds, oil and gas sales, exchange and processing contracts and agreements and interests related to any of the foregoing), surface interests, fee interests, reversionary interests, reservations and concessions; (c) easements, rights of way, licenses, permits, leases, and other interests associated with, appurtenant to, or necessary for the operation of any of the foregoing; and (d) interests in fixtures, equipment and machinery (including well equipment and machinery), oil and gas production, gathering, transmission, compression, treating, processing and storage facilities (including tanks, tank batteries, pipelines and gathering systems), pumps, water plants, electric plants, gasoline and gas processing plants, refineries and other tangible personal property and fixtures associated with, appurtenant to, or necessary for the operation of any of the foregoing.

- 1.58 Ownership Interests. The ownership interests of Gothic in its assets, as set forth in Section 1.58 of the Gothic Disclosure Schedule.
- 1.59 Parent. Chesapeake Energy Corporation, an Oklahoma corporation.
- 1.60 Parent Benefit Plans. "Employee benefit plans" within the meaning of Section 3(3) of ERISA, which the Parent Companies maintain or sponsor or with respect to which the Parent Companies have any material liability (actual, contingent, primary or secondary), and all other: (a) director or employee compensation or benefit plans, programs or arrangements; (b) stock purchase, stock option, severance, bonus, incentive and deferred compensation plans; (c) written employment or consulting contracts; and (d) change-in-control agreements which the Parent Companies maintain, sponsor or are a party to or with respect to which the Gothic Companies have or could have any material liability.
- 1.61 Parent Certificate. A certificate representing shares of Parent Common Stock.
- 1.62 Parent Common Stock. Parent's common stock, par value \$0.01 per share.
- 1.63 Parent Companies. Parent and the Parent Subsidiaries.
- 1.64 Parent Disclosure Schedule. The disclosure schedule attached hereto entitled Parent Disclosure Schedule and any documents listed on such disclosure schedule and expressly incorporated therein by reference.
- 1.65 Parent Employee Benefit Plan(s). As defined in paragraph 4.17.
- 1.66 Parent Financial Statements. The audited and unaudited consolidated financial statements of the Parent Companies (including the related notes) included (or incorporated by reference) in Parent's Annual Report on Form 10-K for the year ended December 31, 1999, and Parent's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, in each case as filed with the SEC.
- 1.67 Parent Permits. As defined in paragraph 4.13.
- 1.68 Parent Preferred Stock. Parent's preferred stock, par value \$0.01 per share.
- 1.69 Parent Representative. Any director, officer, employee, agent, advisor (including legal, accounting and financial advisors), Affiliate or other representative of Parent or Parent Subsidiaries.
- 1.70 Parent SEC Documents. As defined in paragraph 4.5.
- 1.71 Parent Subsidiaries. Sub and all other direct or indirect wholly owned subsidiaries of Parent.
- 1.72 Permitted Encumbrances. Any: (a) Liens for Taxes, assessments or other governmental charges or levies that are not at the particular time in question due and delinquent, foreclosure, distraint, sale or other similar proceedings have not been commenced or if commenced, have been stayed or are being contested in good faith by appropriate proceedings and if any of the Gothic Companies will have set aside on its books such reserves (segregated to the extent required by



sound accounting practices) as may be required by GAAP or otherwise determined by its board of directors to be adequate with respect thereto; (b) Liens of carriers, warehousemen, mechanics, laborers, materialmen, landlords, vendors, workmen and operators arising by operation of law in the ordinary course of business or by a written agreement existing as of the date hereof and necessary or incident to the exploration, development, operation and maintenance of Hydrocarbon properties and related facilities and assets for sums not yet due or being contested in good faith by appropriate proceedings, if any of the Gothic Companies will have set aside on its books such reserves (segregated to the extent required by sound accounting practices) as may be required by GAAP or otherwise determined by its board of directors to be adequate with respect thereto; (c) Liens incurred in the ordinary course of business in connection with worker's compensation, unemployment insurance and other social security legislation (other than ERISA); (d) Liens incurred in the ordinary course of business to secure the performance of bids, tenders, trade contracts, leases, statutory obligations, surety and appeal bonds, performance and repayment bonds and other obligations of a like nature; (e) Liens, easements, rights-of-way, restrictions, servitudes, permits, conditions, covenants, exceptions, reservations and other similar encumbrances incurred in the ordinary course of business or existing on property and not (i) reducing the Gothic Net Revenue Interest set forth in Section 1.58 of the Gothic Disclosure Schedule, (ii) increasing the Gothic Working Interests in any Oil and Gas Interest set forth in Section 1.58 of the Gothic Disclosure Schedule or (iii) impairing the value of the assets of any of the Gothic Companies or interfering with the ordinary conduct of the business of any of the Gothic Companies or rights to any of their assets; (f) Liens created or arising by operation of law to secure a party's obligations as a purchaser of oil and gas; (g) all rights to consent by, required notices to, filings with, or other actions by any Governmental Authority to the extent customarily obtained subsequent to Closing; (h) farmout, carried working interest, joint operating, unitization, royalty, overriding royalty, sales and similar agreements relating to the exploration or development of, or production from, Hydrocarbon properties entered into in the ordinary course of business; (i) any defects, irregularities or deficiencies in title to easements, rights-of-way or other surface use agreements that do not (x) reduce the Gothic Net Revenue Interests set forth in Section 1.58 of the Gothic Disclosure Schedule, (y) increase the Gothic Working Interests in any Oil and Gas Interest set forth in Section 1.58 of the Gothic Disclosure Schedule or (z) adversely affect the value of any asset of any of the Gothic Companies; (j) preferential rights to purchase and Third-Party Consents disclosed in Section 1.72 of the Gothic Disclosure Schedule; (k) Liens arising under or created pursuant to the Bank Credit Agreement and the Senior Secured GPC Notes; and (l) Liens specifically described in Section 1.72 of the Gothic Disclosure Schedule.

- 1.73 Person(s). Any natural person, corporation, company, limited or general partnership, joint stock company, joint venture, association, limited liability company, limited liability partnership, trust, bank, trust company, land trust, business trust or other entity or organization, whether or not a Governmental Authority.
- 1.74 Proxy Statement/Prospectus. A proxy statement in a definitive form relating to the Gothic Stockholder Meeting, which proxy statement will be included as a prospectus in the Registration Statement.
- 1.75 Registration Statement. The Registration Statement on Form S-4 to be filed by Parent in connection with the issuance of Parent Common Stock pursuant to the Merger.
- 1.76 Returns. As defined in paragraph 3.14.1.
- 1.77 SEC. The Securities and Exchange Commission.
- 1.78 Securities Act. The Securities Act of 1933, as amended from time to time.

- 1.79 Senior Discount Notes. The 14 1/8% Series B Senior Secured Discount Notes Due 2006 issued by Gothic and the related indenture, collateral documents and other agreements and instruments in connection therewith.
- 1.80 Senior Secured GPC Notes. The 11 1/8% Senior Secured Notes due 2005 issued by the Gothic Subsidiary and the related indenture, collateral documents and other agreements and instruments in connection therewith.
- 1.81 Sub. Chesapeake Merger 2000 Corp., an Oklahoma corporation and wholly-owned subsidiary of Parent.
- 1.82 Sub Common Stock. Sub's common stock, par value \$1.00 per share.
- 1.83 Superior Proposal. As defined in paragraph 5.4.2.
- 1.84 Surviving Corporation. As defined in paragraph 2.1.
- 1.85 Tax(es). Any and all taxes, fees, levies, duties, tariffs, imposts, and other charges of any kind (together with any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto) imposed by any Governmental Authority or taxing authority including, without limitation, taxes or other charges on or with respect to income, franchises, windfall or other profits, gross receipts, property, sales, use, capital stock, payroll, employment, social security, workers' compensation, unemployment compensation, or net worth, taxes or other charges in the nature of excise, withholding, ad valorem, stamp, transfer, value added, or gains taxes, license, registration and documentation fees, and custom duties, tariffs, and similar charges.
- 1.86 Third-Party Consent. The consent or approval of any Person other than Gothic, Parent, Sub or any Governmental Authority.
- 1.87 Working Interest. Gothic's share of all of the costs, expenses, burdens, and obligations of any type or nature attributable to Gothic's interests in its oil and gas properties or any well thereon.

2. MERGER. Subject to the terms and conditions set forth in this Agreement, at the Effective Time, Sub will be merged with and into Gothic in accordance with the provisions of this Agreement and the OGCA. Such merger is referred to herein as the "Merger."

- 2.1 Effect of the Merger. Upon the effectiveness of the Merger, the separate existence of Sub will cease and Gothic, as the surviving corporation in the Merger (the "Surviving Corporation"), will continue its corporate existence under the laws of the State of Oklahoma. The Merger will have the effects specified in this Agreement and the OGCA.
- 2.2 Governing Instruments, Directors and Officers of the Surviving Corporation. As of the Effective Time: (a) the certificate of incorporation of Sub including the Amended and Restated Certificate of Designation of Preferences and Rights of the Gothic Preferred Stock in the form attached hereto as Exhibit "2.2," as in effect immediately prior to the Effective Time, will be the certificate of incorporation of the Surviving Corporation until duly amended in accordance with the terms of the certificate of incorporation and applicable law; (b) the name of the Surviving Corporation will be Gothic Energy Corporation, however, at the option of Parent, the name of the Surviving Corporation may be changed; (c) the bylaws of Sub, as in effect immediately prior to the Effective Time, will be the bylaws of the Surviving Corporation until duly amended in accordance with the terms of the bylaws and applicable law; and (d) the directors and officers of Sub at the Effective Time will be the directors and officers, respectively, of the Surviving Corporation from the Effective Time until their respective successors have been duly elected or appointed in accordance with the certificate of incorporation and bylaws of the Surviving Corporation and applicable law.
- 2.3 Effect on Securities. As of the Effective Time, by virtue of the Merger and without any action on the part of any holder thereof, the Sub Common Stock, the Gothic Common Stock and other

Gothic securities will be treated as follows subject to the terms and conditions of this Agreement:

- 2.3.1 Sub Common Stock. Each share of Sub Common Stock outstanding immediately prior to the Effective Time will be automatically converted into and become one (1) share of common stock of the Surviving Corporation. As a result of the Merger the foregoing stock will represent one hundred percent (100%) of the issued and outstanding capital stock of the Surviving Corporation immediately after the Effective Time.
- 2.3.2 Gothic Common Stock. As of the Effective Time, by virtue of the Merger and automatically without any action on the part of any holder thereof, each share of Gothic Common Stock that is issued and outstanding immediately prior to the Effective Time (other than shares of Gothic Common Stock held by Dissenting Stockholders, shares of Gothic Common Stock held by the Parent Companies as of the date of this Agreement and shares of Gothic Common Stock held by the Parent Companies as a result of the conversion of Gothic Preferred Stock) will be automatically converted into a portion of a share of validly issued, fully paid and non-assessable Parent Common Stock equal to the Exchange Ratio. Each share of Gothic Common Stock converted under this paragraph 2.3.2 will be canceled and retired, cease to exist and no longer be outstanding. Any holder of a Gothic Certificate representing any such share of Gothic Common Stock will cease to have any rights with respect thereto except the right to receive the share of Parent Common Stock to be issued in exchange therefor (along with any cash in lieu of fractional shares of Parent Common Stock as provided in paragraph 2.4.5 and any unpaid dividends and distributions with respect to such shares of Parent Common Stock as provided in paragraph 2.4.3, without interest), on the surrender of such Gothic Certificate in accordance with paragraph 2.4. Notwithstanding anything herein to the contrary as of the Effective Time, by virtue of the Merger: (a) no shares of Parent Common Stock or other consideration will be paid or payable in exchange for shares of Gothic Common Stock that are issued and held as treasury stock, if any, and all of the foregoing shares of Gothic Common Stock will be automatically canceled and retired, cease to exist and no longer be outstanding; (b) no shares of Parent Common Stock or other consideration will be paid or payable in exchange for shares of Gothic Common Stock that are owned by the Parent Companies and all of the foregoing shares of Gothic Common Stock will remain outstanding and in full force and effect; and (c) any obligations relating to the payment of the purchase price for Gothic Common Stock will not be discharged and will constitute valid and binding obligations owned by the Surviving Corporation.
- 2.3.3 Gothic Preferred Stock. As of the Effective Time, by virtue of the Merger, all of the shares of Gothic Preferred Stock and all rights with respect thereto will remain outstanding and in full force and effect in accordance with the Certificate of Designation of Preferences and Rights of the Gothic Preferred Stock as amended by the Amended and Restated Certificate of Designation of Preferences and Rights of Gothic Preferred Stock attached hereto as Exhibit "2.2" pursuant to which the right to convert the Gothic Preferred Stock into Gothic Common Stock will be eliminated. Notwithstanding anything herein to the contrary, no shares of Parent Common Stock or other consideration will be paid or payable to any holder of Gothic Preferred Stock in exchange for Gothic Preferred Stock.
- 2.3.4 Options and Warrants. Section 2.3.4 of the Gothic Disclosure Schedule lists: (a) each of the Gothic Plans; (b) each Gothic Stock Option outstanding specifying the Gothic Plan under which such Gothic Stock Option was issued, the number of shares of Gothic Common Stock covered by such Gothic Stock Option, the term of such Gothic Stock Option, the vesting schedule for such Gothic Stock Option and the exercise price for such Gothic Stock Option; and (c) each Gothic Warrant outstanding specifying the agreement under which such Gothic Warrant was issued, the number of shares of Gothic Common

Stock covered by such Gothic Warrant, the term of such Gothic Warrant and the exercise price for each share of Gothic Common Stock which can be acquired thereunder (in each case after giving effect to the Merger and all previous transactions). As of the Effective Time, as a result of the Merger, each Gothic Stock Option and Gothic Warrant described in the foregoing clauses (b) and (c) of this paragraph 2.3.4 will be assumed by Parent under the operative documents for such Gothic Stock Option and Gothic Warrant and converted into options or warrants to purchase the whole number of shares of Parent Common Stock determined in accordance with the terms and conditions of the documents evidencing such Gothic Stock Option or Gothic Warrant. Except as expressly stated otherwise in this Agreement, the parties agree that the terms, exercisability, vesting schedule, vesting commencement date, status as an "incentive stock option" under Section 422 of the Code, if applicable, and all other terms and conditions of any Gothic Stock Option or Gothic Warrant will otherwise be unchanged as a result of the transactions contemplated by this Agreement, except by operation of law. The parties agree that to the extent that any of the Gothic Stock Options have not been exercised or terminated prior to the Effective Time, any cashless exercise rights under any of the Gothic Stock Options will be terminated prior to the Merger and will not be included in the terms assumed by the Parent. Without limiting the foregoing, except as expressly disclosed in Section 2.3.4 of the Gothic Disclosure Schedule, Gothic further hereby represents and warrants to Parent that: (i) all adjustments required to be made to the number of shares issuable or the exercise price for exercise under each of the Gothic Stock Options and Gothic Warrants has been accurately made as disclosed in Section 2.3.4 of the Gothic Disclosure Schedule; (ii) all required notices have been given to the holders of the Gothic Stock Options and the Gothic Warrants including, without limitation, adjustment notices; and (iii) no Gothic Stock Options or Gothic Warrants will vest, nor will the vesting schedule of any Gothic Stock Options or Gothic Warrants accelerate, as a result of the transactions contemplated by this Agreement. As of the Effective Time, as a result of the Merger, other than those Gothic Stock Options or Gothic Warrants assumed by the Parent in accordance with this paragraph 2.3.4, the provisions in any of the Gothic Plans or any other program, arrangement, option, warrant or other agreement providing for the issuance or grant of any interest in respect of the capital stock of the Gothic Companies will be canceled, cease to exist and no longer be outstanding as of the Effective Time and Gothic will take all action necessary to ensure that following the Effective Time no Person will have any right thereunder to acquire equity securities of Gothic, the Surviving Corporation or any subsidiary thereof.

- 2.3.5 Dissenting Stockholder Shares. Except as provided herein, any issued and outstanding shares of Gothic Common Stock held by a Dissenting Stockholder will be converted into the right to receive such consideration as may be determined to be due to such Dissenting Stockholder pursuant to the OGCA. If a Dissenting Stockholder effectively withdraws the demand for appraisal or loses the right of appraisal as provided under the OGCA, the shares of Gothic Common Stock held by such Dissenting Stockholder will be deemed to be converted under paragraph 2.3.2 of this Agreement (without interest). Gothic will provide prompt notice to the Parent of any written demands for appraisal, withdrawals of demands for appraisal and any other instruments served pursuant to the OGCA and will provide to the Parent the opportunity to direct all negotiations and proceedings with respect to demands for appraisal under the OGCA. Absent the prior written consent of Parent and Sub, Gothic will not negotiate, settle or offer to settle any demand for appraisal, provided, however that any and all payments made to settle such appraisal rights or made pursuant to the OGCA will be made solely out of Gothic assets and neither Parent nor Sub will have any liability therefor. Notwithstanding anything contained in this paragraph 2.3.5, if the Merger is rescinded or abandoned or if the stockholders of Gothic revoke the authority to effect the Merger, then the right of any

Dissenting Stockholder to receive such consideration as may be determined to be due in respect of such Dissenting Stockholder's Gothic Common Stock pursuant to the OGCA will cease.

2.4 Exchange of Certificates. The exchange of Gothic Common Stock for Parent Common Stock will be consummated as follows:

2.4.1 Exchange Fund. Immediately after the Effective Time, Parent will deposit with the Exchange Agent, for the benefit of the holders of shares of Gothic Common Stock and for exchange in accordance with this Agreement, certificates representing the Merger Consideration to be issued in exchange for shares of Gothic Common Stock pursuant to paragraph 2.4.2, less the number of shares of Parent Common Stock which: (i) would have been issuable to Dissenting Stockholders; (ii) will be subject to pledge agreement by directors of the Gothic Companies securing loans from the Gothic Companies for the acquisition of Gothic Common Stock; and (iii) will be issuable on exercise of the Gothic Warrants listed in Section 1.24 of the Gothic Disclosure Schedule. Such shares of Parent Common Stock delivered to the Exchange Agent, together with any dividends or distributions with respect thereto (as provided in paragraph 2.4.3), are referred to herein as the "Exchange Fund." The Exchange Agent, pursuant to irrevocable instructions consistent with the terms of this Agreement, will deliver the Parent Common Stock to be issued or paid pursuant to paragraph 2.4.2 out of the Exchange Fund, and the Exchange Fund will not be used for any other purpose whatsoever. The Exchange Fund will not be entitled to vote or exercise any rights of ownership with respect to the Parent Common Stock held by it from time to time hereunder, except that it will receive and hold all dividends or other distributions paid or distributed with respect thereto for the account of Persons entitled thereto.

2.4.2 Notice and Surrender. As soon as reasonably practicable after the Effective Time, Parent will cause the Exchange Agent to mail to each holder of record of a Gothic Certificate that, immediately prior to the Effective Time, represented shares of Gothic Common Stock which were converted into the right to receive Parent Common Stock pursuant to paragraph 2.3.2, a letter of transmittal to be used to effect the exchange of such Gothic Certificate for a Parent Certificate (and cash in lieu of fractional shares), along with instructions for using such letter of transmittal to effect such exchange. The letter of transmittal (or the instructions thereto) will specify that delivery of any Gothic Certificate will be effected, and the risk of loss and title thereto will pass, only upon delivery of such Gothic Certificate to the Exchange Agent and will be in such form and have such other provisions as Parent may reasonably specify. Upon surrender to the Exchange Agent of a Gothic Certificate for cancellation, together with a duly completed and executed letter of transmittal and any other required documents (including, in the case of any Person constituting an "affiliate" of Gothic for purposes of Rule 145(c) and (d) under the Securities Act, a written agreement from such Person as described in paragraph 5.10, if not previously delivered to Parent): (a) the holder of such Gothic Certificate will be entitled to receive in exchange therefor a Parent Certificate representing the number of whole shares of Parent Common Stock that such holder has the right to receive pursuant to paragraph 2.3.2, any cash in lieu of fractional shares of Parent Common Stock as provided in paragraph 2.4.5, and any unpaid dividends and distributions that such holder has the right to receive pursuant to paragraph 2.4.3 (after giving effect to any required withholding of Taxes); and (b) the Gothic Certificate so surrendered will forthwith be canceled. No interest will be paid or accrued on the cash in lieu of fractional shares or unpaid dividends and distributions, if any, payable to holders of Gothic Certificates. In the event of a transfer of ownership of Gothic Common Stock that is not registered in the transfer records of Gothic, a Parent Certificate representing the appropriate number of shares of Parent Common Stock (along with any cash in lieu of

fractional shares and any unpaid dividends and distributions that such holder has the right to receive) may be issued or paid to a transferee if the Gothic Certificate representing such shares of Gothic Common Stock is presented to the Exchange Agent accompanied by all documents required to evidence and effect such transfer and to evidence that any applicable stock transfer Taxes have been paid. Until surrendered as contemplated by this paragraph 2.4.2, each Gothic Certificate will be deemed at any time after the Effective Time to represent only the right to receive upon such surrender a Parent Certificate representing shares of Parent Common Stock as provided in paragraph 2.3.2 (along with any cash in lieu of fractional shares and any unpaid dividends and distributions to the extent specified herein).

- 2.4.3 Dividends and Distributions. No dividends or other distributions with respect to Parent Common Stock declared or made after the Effective Time with a record date after the Effective Time will be paid to the holder of any unsurrendered Gothic Certificate. Subject to the effect of applicable laws: (i) at the time of the surrender of a Gothic Certificate for exchange in accordance with the provisions of this paragraph 2.4, there will be paid to the surrendering holder, without interest, the amount of dividends or other distributions (having a record date after the Effective Time but on or prior to surrender and a payment date on or prior to surrender) theretofore paid with respect to the number of whole shares of Parent Common Stock that such holder is entitled to receive (less the amount of any withholding Taxes that may be required with respect thereto); and (ii) at the appropriate payment date, there will be paid to the surrendering holder, without interest, the amount of dividends or other distributions (having a record date after the Effective Time but on or prior to surrender and a payment date subsequent to surrender) payable with respect to the number of whole shares of Parent Common Stock that such holder receives (less the amount of any withholding Taxes that may be required with respect thereto).
- 2.4.4 Full Satisfaction. All shares of Parent Common Stock issued upon the surrender for exchange of shares of Gothic Common Stock in accordance with the terms hereof (including any cash paid pursuant to paragraph 2.4.3 or 2.4.5) will be deemed to have been issued in full satisfaction of all rights pertaining to such shares of Gothic Common Stock. After the Effective Time, there will be no further registration of transfers on the Surviving Corporation's stock transfer books of the shares of Gothic Common Stock that were outstanding immediately prior to the Effective Time. If, after the Effective Time, a Gothic Certificate is presented to the Surviving Corporation or Parent for any reason, it will be canceled and exchanged as provided in this paragraph 2.4.
- 2.4.5 Fractional Shares. No Parent Certificate or scrip representing fractional shares of Parent Common Stock will be issued in the Merger and, except as provided in this paragraph 2.4.5, no dividend or other distribution, stock split or interest will relate to any such fractional shares, and such fractional share will not entitle the owner thereof to vote or to any other rights of a stockholder of Parent. In lieu of any fractional security, each holder of shares of Gothic Common Stock who would otherwise have been entitled to a fraction of a share of Parent Common Stock upon surrender of the Gothic Certificate(s) representing such Gothic Common Stock for exchange pursuant to this paragraph 2.4 will be paid an amount in cash (without interest) equal to such holder's proportionate interest in the amount of the net proceeds from the sale or sales by the Exchange Agent in accordance with the provisions of this paragraph 2.4.5, on behalf of all such holders, of the aggregate fractional shares of Parent Common Stock issued pursuant to paragraph 2.3. As soon as practicable following the Effective Time, the Exchange Agent will determine the excess of: (a) the number of whole shares of Parent Common Stock delivered to the Exchange Agent by Parent pursuant to paragraph 2.4.1; over (b) the aggregate number of whole shares of Parent Common Stock to be distributed to holders

of Gothic Common Stock pursuant to paragraph 2.3.2 (such excess being herein called the "Excess Securities") and the Exchange Agent, as agent for the former holders of Gothic Common Stock, will sell the Excess Securities at the prevailing prices on the Exchange. The sale of the Excess Securities by the Exchange Agent will be executed on the Exchange through one or more member firms of the Exchange and will be executed in round lots to the extent practicable. Parent will pay all commissions, transfer taxes and other out-of-pocket transaction costs, including the expenses and compensation of the Exchange Agent, incurred in connection with such sale of Excess Securities. Until the net proceeds of such sale of Excess Securities have been distributed to the former stockholders of Gothic, the Exchange Agent will hold such proceeds and dividends in trust for such former stockholders. As soon as practicable after the determination of the amount of cash to be paid to former stockholders of Gothic in lieu of any fractional interests, the Exchange Agent will make available in accordance with this Agreement such amounts to any such former stockholders.

- 2.4.6 Unclaimed Exchange Fund. Any portion of the Exchange Fund and cash held by the Exchange Agent in accordance with the terms of this paragraph 2.4 that remains unclaimed by the former stockholders of Gothic for a period of one (1) year following the Effective Time will be delivered to Parent, upon demand. Thereafter, any former stockholders of Gothic who have not theretofore complied with the provisions of this paragraph 2.4 will look only to Parent for payment of their claim for Parent Common Stock, any cash in lieu of fractional shares of Parent Common Stock and any dividends or distributions with respect to Parent Common Stock (all without interest).
- 2.4.7 No Liability. Neither Parent, Sub, Gothic, the Surviving Corporation, the Exchange Agent nor any other Person will be liable to any former holder of shares of Gothic Common Stock for any amount properly delivered to any public official pursuant to any applicable abandoned property, escheat or similar law. Any amounts remaining unclaimed by former holders of Gothic Common Stock for a period of three (3) years following the Effective Time (or such earlier date immediately prior to the time at which such amounts would otherwise escheat to or become property of any Governmental Authority) will, to the extent permitted by applicable law, become the property of Parent, free and clear of any claims or interest of any such holders or their successors, assigns or personal representatives previously entitled thereto.
- 2.4.8 Lost, Stolen or Destroyed Certificates. If any Gothic Certificate is lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Gothic Certificate to be lost, stolen or destroyed and, if required by Parent, the posting by such Person of a bond, in such reasonable amount as Parent may direct, as indemnity against any claim that may be made against Parent with respect to such Gothic Certificate, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Gothic Certificate the shares of Parent Common Stock (along with any cash in lieu of fractional shares pursuant to paragraph 2.4.5 and any unpaid dividends and distributions pursuant to paragraph 2.4.3) deliverable with respect thereto pursuant to this Agreement.
- 2.4.9 Encumbered Shares. All shares of Gothic Common Stock which were acquired by directors of the Gothic Companies through a loan or purchase money sale by any of the Gothic Companies secured by a pledge agreement covering such Gothic Common Stock will be converted into shares of Parent Common Stock in accordance with the provisions of paragraph 2.3.2 hereof and will continue to secure such indebtedness until it is paid in full in accordance with the terms thereof. Upon payment in full of the entire unpaid purchase price therefor plus all accrued unpaid interest thereon such Parent Common Stock will be delivered in accordance with the instructions of the pledgor thereof. At the option of the Parent, a legend may be included on the Gothic Certificate or the Parent

Certificate disclosing the existence of the unpaid obligation and the Lien on the Parent Common Stock to secure the payment of such indebtedness.

- 2.5 Closing. The Closing will take place on the Closing Date at such time and place as is agreed upon by Parent and Gothic.
- 2.6 Effective Time of the Merger. The Merger will become effective immediately when the Certificate of Merger is accepted for filing by the Secretary of State of Oklahoma or at such time thereafter as is provided in the Certificate of Merger (the "Effective Time"). The Certificate of Merger will be filed on the Closing Date as soon as practicable after the Closing; provided, however, that the Certificate of Merger may be filed prior to the Closing Date or prior to the Closing so long as it provides for an Effective Time that occurs after the Closing.
- 2.7 Taking of Necessary or Further Action. Each of Parent, Sub and Gothic will use all reasonable efforts to take all such actions as may be necessary or appropriate in order to effectuate the Merger under the OGCA as promptly as commercially practicable. If, at any time after the Effective Time, any further action is necessary or desirable to carry out the purposes of this Agreement and to vest the Surviving Corporation with full right, title and possession to all assets, property, rights, privileges, powers and franchises of either Sub or Gothic, the officers and directors of the Surviving Corporation are fully authorized, in the name of the Surviving Corporation or otherwise to take, and will take all such lawful and necessary action.

3. GOTHIC REPRESENTATIONS AND WARRANTIES. Except as set forth in the Gothic Disclosure Schedule, Gothic hereby represents and warrants to Parent and Sub that:

- 3.1 Corporate Organization. Each of the Gothic Companies: (a) is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation; (b) has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its business as it is presently being conducted; and (c) is duly qualified to do business as a foreign corporation, and is in good standing, in each jurisdiction where the character of the properties owned or leased by it or the nature of its activities makes such qualification necessary (except where any failure to be so qualified as a foreign corporation or to be in good standing would not, individually or in the aggregate, have a Material Adverse Effect on Gothic). Copies of the certificate or articles of incorporation and bylaws of each of the Gothic Companies have heretofore been delivered to Parent and such copies are accurate and complete as of the date hereof.
- 3.2 Authority and Enforceability. The board of directors of Gothic (at a meeting duly called and held) has: (a) determined that the Merger is advisable; and (b) resolved to approve the Merger and recommend the approval and adoption of this Agreement by Gothic's stockholders. Gothic is not governed by the Control Share Acquisition Act, Sections 1145 through 1155 of Title 18 of the Oklahoma Statutes and Section 1090.3 of the OGCA. Gothic has the requisite corporate power and authority to execute and deliver this Agreement and (with respect to consummation of this Agreement and the Merger, subject to the approval of the stockholders of Gothic) to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and (with the approval by the stockholders of Gothic) the consummation of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action on the part of Gothic, including approval by the board of directors of Gothic, and no other corporate proceedings on the part of Gothic are necessary to authorize the execution or delivery of this Agreement or (with approval by the stockholders of Gothic) to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Gothic (with respect to consummation of this Agreement and the Merger, subject to the approval by the stockholders of Gothic and assuming that this Agreement constitutes a valid and binding obligation of Parent and Sub) and constitutes a valid and binding obligation of Gothic, enforceable against Gothic in accordance with its terms.



- 3.3 No Violations. Except as set forth in Section 3.3 of the Gothic Disclosure Schedule, the execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby and compliance by Gothic with the provisions hereof will not, conflict with, result in any violation of or default (with or without notice or lapse of time or both) under, give rise to a right of termination, cancellation or acceleration of any obligation (excluding any change of control put or acceleration) or to the loss of a material benefit under, or result in the creation of any Lien on any of the properties or assets of the Gothic Companies under, any provision of: (a) the certificate of incorporation or bylaws of the Gothic Companies; (b) any loan or credit agreement, note, bond, mortgage, indenture, lease, permit, concession, franchise, license or other agreement or instrument applicable to the Gothic Companies; or (c) assuming the consents, approvals, authorizations or permits and filings or notifications referred to in paragraph 3.4 are duly and timely obtained or made, any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Gothic Companies or any of their respective properties or assets, other than, in the case of clause (b) or (c) above, any such conflict, violation, default, right, loss or Lien that, individually or in the aggregate, would not have a Material Adverse Effect on Gothic.
- 3.4 Consents and Approvals. No consent, approval, order or authorization of, registration, declaration, or filing with, or permit from, any Governmental Authority is required by or with respect to Gothic in connection with the execution and delivery of this Agreement by Gothic or the consummation by Gothic of the transactions contemplated hereby except for the following: (a) any such consent, approval, order, authorization, registration, declaration, filing or permit which the failure to obtain or make would not, individually or in the aggregate, have a Material Adverse Effect on Gothic or Gothic's ability to consummate the transactions contemplated hereby in accordance with this Agreement; (b) the filing of the Certificate of Merger with the Secretary of State of Oklahoma pursuant to the provisions of the OGCA; (c) the filing, if necessary, of a pre-merger notification report by Parent under the HSR Act and the expiration or termination of the applicable waiting period; (d) the filing with the SEC of the Proxy Statement/Prospectus and such other reports under Section 13(a) of the Exchange Act and such other compliance with the Exchange Act and the Securities Act and the rules and regulations of the SEC thereunder as may be required in connection with this Agreement and the transactions contemplated hereby and the obtaining from the SEC of such orders as may be so required; and (e) such filings and approvals as may be required by any applicable state securities, "blue sky" or takeover laws or Environmental Laws. No Third-Party Consent is required by or with respect to Gothic in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except for: (i) any such Third-Party Consent which the failure to obtain would not, individually or in the aggregate, have a Material Adverse Effect on Gothic or Gothic's ability to consummate the transactions contemplated in this Agreement; (ii) the valid approval of this Agreement and the Merger by the stockholders of Gothic; and (iii) any consent, approval or waiver required by the terms of the Bank Credit Agreement, which consent, approval or waiver Gothic undertakes to seek and obtain promptly after the date of this Agreement.
- 3.5 Gothic SEC Documents. Parent has had or will have available to it a true, correct and complete copy of each report, schedule, registration statement and definitive proxy statement filed by Gothic with the SEC since December 31, 1997, and prior to the Effective Time (the "Gothic SEC Documents"), which are all the documents (other than preliminary material) that Gothic was or will be required to file with the SEC since such date. Except as set forth in Section 3.5 of the Gothic Disclosure Schedule, as of their respective dates, the Gothic SEC Documents complied or will comply in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the SEC thereunder applicable to such Gothic SEC Documents, and none of the Gothic SEC Documents contained or will contain any untrue statement of a material fact or omitted or will omit to state a material

fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

- 3.6 Financial Statements. The Gothic Financial Statements were prepared in accordance with the applicable published rules and regulations of the SEC with respect thereto and in accordance with GAAP applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto or, in the case of unaudited statements, as permitted by Rule 10-01 of Regulation S-X of the SEC) and fairly present in all material respects, in accordance with applicable requirements of GAAP (in the case of unaudited statements, subject to normal, recurring adjustments), the consolidated financial position of the Gothic Companies as of their respective dates and the consolidated results of operations and the consolidated cash flows of the Gothic Companies for the periods presented therein. There are no material imbalances of production from the oil and gas properties of the Gothic Companies whether required to be disclosed pursuant to GAAP or otherwise.
- 3.7 Capital Structure. The authorized capital stock of Gothic consists of 100,000,000 shares of Gothic Common Stock and 500,000 shares of Gothic Preferred Stock. As of September 5, 2000: (a) 23,305,076 shares of Gothic Common Stock were validly issued and outstanding; (b) 14,796,297 shares of Gothic Common Stock were reserved for issuance pursuant to the Gothic Plans and the Gothic Warrants, of which Gothic Stock Options and Gothic Warrants to purchase a total of 14,731,297 shares of Gothic Common Stock were issued and outstanding; (c) except for the Gothic Preferred Stock owned by the Parent Companies, there were no shares of Gothic Preferred Stock validly issued and outstanding; and (d) no shares of Gothic Common Stock were held by Gothic as treasury stock and no shares of Gothic Preferred Stock were held by Gothic as treasury stock. Gothic will notify Parent in writing simultaneously with any change after September 5, 2000, in any of the numbers of securities set forth in the immediately preceding sentence together with a detailed explanation of the event giving rise to such change. The authorized capital stock of the Gothic Subsidiary consists of 50,000 shares of common stock, \$1.00 par value per share, of which 100 shares are validly issued and outstanding and are now and as of the Effective Time will be owned by Gothic. Except as described in subpart (a) above or in Section 2.3.4 of the Gothic Disclosure Schedule, there are: (i) no outstanding shares of capital stock or other voting securities of Gothic; (ii) no outstanding securities of Gothic or any other Person convertible into or exchangeable or exercisable for shares of capital stock or other voting securities of any Gothic Company; and (iii) no outstanding subscriptions, options, warrants, calls, rights (including preemptive rights, stock appreciation rights, phantom stock rights, conversion rights, commitments, understandings or agreements to which any Gothic Company is a party or by which it is bound) obligating any Gothic Company to issue, deliver, sell, purchase, redeem or acquire shares of capital stock or other securities of any Gothic Company or obligating any Gothic Company to grant, extend or enter into any such subscription, option, warrant, call, right, commitment, understanding or agreement. All outstanding shares of capital stock of each of the Gothic Companies are validly issued, fully paid and nonassessable and not subject to any preemptive right. Except as set forth in Section 3.7 of the Gothic Disclosure Schedule, as of the date hereof there is no, and at the Effective Time there will not be any, stockholder agreement, voting trust or other agreement or understanding to which any of the Gothic Companies is a party or by which it is bound relating to the voting of any shares of the capital stock of any of the Gothic Companies.
- 3.8 Governmental Regulation. None of the Gothic Companies is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act, the Investment Company Act of 1940 or any state public utilities laws.
- 3.9 Litigation. Except as set forth in Section 3.9 of the Gothic Disclosure Schedule, there is no litigation, arbitration, investigation or other proceeding of any Governmental Authority or other Person pending or, to the knowledge of Gothic, threatened against any of the Gothic Companies or their respective assets which, if adversely determined, could reasonably be expected to have a

Material Adverse Effect on any of the Gothic Companies or Gothic's ability to consummate the transactions contemplated hereby in accordance with this Agreement. Gothic has no knowledge of any facts that are likely to give rise to any litigation, arbitration, investigation or other proceeding of any Governmental Authority or other Person which, individually or in the aggregate, is reasonably likely to have a Material Adverse Effect on any of the Gothic Companies or Gothic's ability to consummate the transactions contemplated hereby in accordance with this Agreement. No Gothic Company is subject to any outstanding injunction, judgment, order, decree or ruling (other than routine oil and gas field regulatory orders and any injunction, judgment, order, decree or ruling that, either individually or in the aggregate, would not have a Material Adverse Effect on any of the Gothic Companies or Gothic's ability to consummate the transactions contemplated hereby in accordance with this Agreement). There is no litigation, investigation or other proceeding of any Governmental Authority or other Person pending or, to the knowledge of Gothic, threatened against or affecting any of the Gothic Companies that questions the validity or enforceability of this Agreement or any other document, instrument or agreement to be executed and delivered by Gothic in connection with the transactions contemplated hereby.

- 3.10 Brokers. Except for the agreement attached hereto as Section 3.10 of the Gothic Disclosure Schedule, no broker, finder, investment banker or other Person is or will be, in connection with the transactions contemplated by this Agreement, entitled to any brokerage, finder's or other fee or compensation based on any arrangement or agreement made by or on behalf of Gothic for which the Gothic Companies or Parent or Sub will have any obligation or liability.
- 3.11 Absence of Certain Changes or Events. Except as set forth in Section 3.11 of the Gothic Disclosure Schedule, since March 31, 2000, Gothic has conducted its business only in the ordinary course of business consistent with past practices and, since such date, there has not been any event (financial or otherwise, whether or not in the ordinary course of business), circumstance or condition that: (a) would be reasonably likely to have a Material Adverse Effect on any of the Gothic Companies or Gothic's ability to consummate the transactions contemplated hereby in accordance with this Agreement; or (b) would have required the consent of Parent pursuant to paragraph 5.1 had such event occurred after the date of this Agreement (other than changes, including changes in commodity prices, generally affecting the oil and gas industry, changes resulting from exploration or development results reported in the ordinary course of business and changes arising from the announcement of the Merger).
- 3.12 Compliance with Laws, Material Agreements and Permits. None of the Gothic Companies is in violation of, or in default under, and no event has occurred that (with notice or the lapse of time or both) would constitute a violation of or default under: (a) its certificate or articles of incorporation or bylaws or other governing document; (b) any applicable law, rule, regulation, order, writ, decree or judgment of any Governmental Authority; or (c) any Gothic Material Agreement, except (in the case of clause (b) or (c) above) for any violation or default that would not, individually or in the aggregate, have a Material Adverse Effect on any of the Gothic Companies or Gothic's ability to consummate the transactions contemplated hereby in accordance with this Agreement. Each of the Gothic Companies has obtained and holds all permits, licenses, variances, exemptions, orders, franchises, approvals and authorizations of all Governmental Authorities necessary for the lawful conduct of its business or the lawful ownership, use and operation of its assets ("Gothic Permits"), except for Gothic Permits which the failure to obtain or hold would not, individually or in the aggregate, have a Material Adverse Effect on any of the Gothic Companies or Gothic's ability to consummate the transactions contemplated hereby in accordance with this Agreement. Each of the Gothic Companies is in compliance with the terms of its Gothic Permits, except where the failure to comply would not, individually or in the aggregate, have a Material Adverse Effect on any of the Gothic Companies or Gothic's ability to consummate the transactions contemplated hereby in accordance with this Agreement. No investigation or review by any Governmental Authority with respect to any of

the Gothic Companies is pending or, to the knowledge of Gothic, threatened, other than those the outcome of which would not, individually or in the aggregate, have a Material Adverse Effect on any of the Gothic Companies or Gothic's ability to consummate the transactions contemplated hereby in accordance with this Agreement. To the knowledge of Gothic, no party to any Gothic Material Agreement is in material breach of the terms, provisions and conditions of such Gothic Material Agreement.

3.13 No Restrictions. Except as otherwise set forth in Section 3.13 of the Gothic Disclosure Schedule, none of the Gothic Companies is a party to: (a) any agreement, indenture or other instrument that contains restrictions with respect to the payment of dividends or other distributions with respect to its capital stock; (b) any financial arrangement with respect to or creating any indebtedness to any Person (other than indebtedness reflected in the Gothic Financial Statements or indebtedness incurred in the ordinary course of business); (c) any agreement, contract or commitment relating to the making of any advance to, or investment in, any Person (other than advances in the ordinary course of business); (d) any guaranty or other contingent liability with respect to any indebtedness or obligation of any Person (other than guaranties undertaken in the ordinary course of business and other than the endorsement of negotiable instruments for collection in the ordinary course of business); or (e) any agreement, contract or commitment limiting in any respect its ability to compete with any Person or otherwise conduct business of any line or nature.

3.14 Taxes. Except as set forth in Section 3.14 of the Gothic Disclosure Schedule:

3.14.1 The Gothic Companies and any affiliated, combined or unitary group of which Gothic or any subsidiary is or was a member has properly completed and timely (taking into account any extensions) filed all material federal, state, local and foreign returns, declarations, reports, estimates, information returns and statements ("Returns") required to be filed in respect of any Tax and has timely paid all Taxes that are shown by such Returns to be due and payable and the Returns correctly and accurately (except for one or more matters the aggregate effect of which is not material) reflect the facts regarding the income, business and assets, operations, activities, status or other matters of the Gothic Companies required to be shown thereon or any other information required to be shown thereon and are not subject to penalties under Section 6662 of the Code, relating to accuracy-related penalties, or any corresponding provision of applicable state, local or foreign tax law or any predecessor provision. The Gothic Companies have established reserves that are adequate in the aggregate for the payment of all material Taxes not yet due and payable with respect to the results of operations of each the Gothic Companies through the date hereof, and have complied in all material respects with all applicable laws, rules and regulations relating to the payment and withholding of Taxes and the filing of material federal, state or local Returns.

3.14.2 Section 3.14.2 of the Gothic Disclosure Schedule sets forth the last taxable period through which the federal income Tax Returns of the Gothic Companies have been examined by the IRS. Except to the extent being contested in good faith, all material deficiencies asserted as a result of such examinations and any examination by any applicable state or local taxing authority have been paid, fully settled or adequately provided for in Gothic's most recent audited financial statements. No material Tax audits or other administrative proceedings or court proceedings are presently pending with regard to any Taxes for which any of the Gothic Companies would be liable, and no material deficiency which has not yet been paid for any such Taxes has been proposed, asserted or assessed against any of the Gothic Companies with respect to any period. No claim has been asserted by an authority in any jurisdiction where the Gothic Companies do not file Returns that any Gothic Company is subject to Tax in that jurisdiction.

- 3.14.3 None of the Gothic Companies has executed or entered into (or prior to the close of business on the Closing Date will execute or enter into) with the IRS or any taxing authority: (a) any agreement extending the period for assessment or collection of any Tax for which any of the Gothic Companies is liable for any period that is open under the applicable statute of limitations; or (b) a closing agreement pursuant to Section 7121 of the Code or any similar provision of state or local income tax law that relates to any of the Gothic Companies for the current or any future taxable period. None of the Gothic Companies has made an election under Section 341(f) of the Code or has agreed to have Section 341(f)(2) of the Code apply to any disposition of a subsection (f) asset (as such term is defined in Section 341(f)(4) of the Code) owned by any of the Gothic Companies. None of the Gothic Companies is a party to, is bound by or has any obligation under any tax sharing agreement or similar agreement or arrangement. None of the Gothic Companies is a party to any agreement or other arrangement that would result separately or in the aggregate in the payment of any "excess parachute payments" within the meaning of Section 280G of the Code.
- 3.14.4 There are no Liens for Taxes (other than for current Taxes not yet due and payable) on the assets of any of the Gothic Companies.
- 3.14.5 Except for the group of which Gothic is presently a member, none of the Gothic Companies has ever been a member of an "affiliated group of corporations" within the meaning of Section 1504 of the Code, other than as a common parent corporation.
- 3.14.6 After the date hereof, no election which is inconsistent with past practices with respect to Taxes will be made without the written consent of Parent.
- 3.14.7 None of the assets of any of the Gothic Companies is property that is required to be treated as being owned by any other person pursuant to the "safe harbor lease" provisions of former Section 168(f)(8) of the Code.
- 3.14.8 None of the assets of the Gothic Companies directly or indirectly secures any debt the interest on which is tax-exempt under Section 103(a) of the Code. None of the assets of any of the Gothic Companies is "tax-exempt use property" within the meaning of Section 168(h) of the Code.
- 3.14.9 None of the Gothic Companies has agreed to make nor is it required to make any adjustment under Section 481(a) of the Code by reason of a change in accounting method or otherwise which will have any adverse effect on any Tax for a period which ends after December 31, 1999.
- 3.14.10 None of the Gothic Companies has participated in an international boycott within the meaning of Section 999 of the Code.
- 3.14.11 None of the Gothic Companies has had a permanent establishment in any foreign country, as defined in any applicable tax treaty or convention between the United States and such foreign country.
- 3.14.12 Section 3.14.12 of the Gothic Disclosure Schedule identifies each arrangement to which any of the Gothic Companies is a party and which is a partnership for federal income tax purposes and which was required to file an income tax return for a taxable year of such partnership which ended in 1999 (taking into account any election which permitted such arrangement not to file a return).
- 3.14.13 Gothic did not have an excess loss account in any subsidiary which had on December 31, 1999, assets with a fair market value in excess of \$500,000.
- 3.15 Employee Benefit Plans. (a) Section 3.15(a) of the Gothic Disclosure Schedule lists: (i) the "employee benefit plans" (within the meaning of Section 3(3) of ERISA), which any of the

Gothic Companies maintains or sponsors or with respect to which any of the Gothic Companies has any material liability (actual or contingent, primary or secondary); and (ii) all other (A) director or employee compensation or benefit plans, programs or arrangements, (B) stock purchase, stock option, severance, bonus, incentive and deferred compensation plans, (C) written employment or consulting contracts, and (D) change-in-control agreements which any of the Gothic Companies maintains, sponsors or is a party to or with respect to which any of the Gothic Companies has or could have any material liability (such plans, programs, arrangements, contracts and agreements are collectively referred to herein as the "Gothic Employee Benefit Plans"). (b) Except as set forth on Section 3.15(b) of the Gothic Disclosure Schedule: (i) the reserves reflected in the balance sheet contained in the unaudited financial statements for the period ending June 30, 2000 (together with all footnotes attached thereto, the "Balance Sheet") relating to any unfunded benefits under the Gothic Employee Benefit Plans were adequate in the aggregate under GAAP as of June 30, 2000; and (ii) neither Gothic nor any of its subsidiaries has incurred any material unfunded liability in respect of any such Gothic Employee Benefit Plans since that date. (c) There are no suits, investigations or claims (other than undisputed claims for benefits) pending or, to the knowledge of Gothic threatened (or any basis therefor) relating to or for benefits under the Gothic Employee Benefit Plans, except for those suits or claims set forth in Section 3.15(c) of the Gothic Disclosure Schedule or which, individually or in the aggregate, are immaterial. (d) Each Gothic Employee Benefit Plan has been established and administered in all material respects in accordance with its terms, and in all material respects in compliance with the applicable provisions of ERISA, the Code and other applicable laws, rules and regulations and each Gothic Employee Benefit Plan which is intended to be qualified within the meaning of Code Section 401(a) is so qualified. (e) Except as set forth in Section 3.15(e) of the Gothic Disclosure Schedule: (i) no Gothic Employee Benefit Plan currently has any "accumulated funding deficiency" as such term is defined in ERISA Section 302 and Code Section 412 (whether or not waived); (ii) no event or condition exists or is expected to occur which is a reportable event within the meaning of ERISA Section 4043 with respect to any Gothic Employee Benefit Plan that is subject to Title IV of ERISA and with respect to which the 30-day notice requirement has not been waived; (iii) each member of Gothic's Controlled Group (as defined below) has made all required premium payments when due to the Pension Benefit Guaranty Corporation ("PBGC"); (iv) neither Gothic nor any member of its Controlled Group is subject to any liability to the PBGC for any Gothic Employee Benefit Plan termination; (v) no amendment has occurred which requires Gothic or any member of its Controlled Group to provide security pursuant to Code Section 401(a)(29); and (vi) neither Gothic nor any member of its Controlled Group has engaged in a transaction which is reasonably likely to subject it to liability under ERISA Section 4069. For the purposes of this paragraph 3.15, the term "Controlled Group" means all corporations, trades or businesses which, together with Gothic, are treated as a single employer under Section 414 of the Code. (f) No Gothic Employee Benefit Plan is a multiemployer plan (within the meaning of Section 3(37) of ERISA) and neither Gothic nor any member of its Controlled Group has incurred or is reasonably likely to incur any liability to any multiemployer plan nor has or is engaged in a transaction which is reasonably expected to subject Gothic or any member of its Controlled Group to any liability under ERISA Section 4212(c). (g) Except as set forth in Section 3.15(g) of the Gothic Disclosure Schedule, each Gothic Employee Benefit Plan described in subpart (a)(i) above can be unilaterally terminated at any time by the Gothic Companies without material liability to any of the Gothic Companies.

- 3.16 Environmental Matters. (a) Except as set forth in Section 3.16 of the Gothic Disclosure Schedule: (i) the reserves reflected in the Gothic Financial Statements relating to environmental matters were adequate under GAAP as of June 30, 2000, and neither Gothic nor any other Gothic Company has incurred any material liability in respect of any environmental matter since that date; and (ii) the Gothic SEC Documents include all information relating to environmental matters required to be included therein under the rules and regulations of the SEC applicable

thereto. (b) Except as set forth in Section 3.16 of the Gothic Disclosure Schedule, to the knowledge of Gothic: (i) each of the Gothic Companies has conducted its business and operated its assets, and is conducting its business and operating its assets, in material compliance with all Environmental Laws; (ii) none of the Gothic Companies has been notified by any Governmental Authority that any of the operations or assets of any of the Gothic Companies is the subject of any investigation or inquiry by any Governmental Authority evaluating whether any material remedial action is needed to respond to a release of any Hazardous Material or to the improper storage or disposal (including storage or disposal at offsite locations) of any Hazardous Material; (iii) none of the Gothic Companies and no other Person has filed any notice under any federal, state or local law indicating that (A) any of the Gothic Companies is responsible for the improper release into the environment, or the improper storage or disposal of any Hazardous Material, or (B) any Hazardous Material is improperly stored or disposed of upon any property of any of the Gothic Companies; (iv) none of the Gothic Companies has any material contingent liability in connection with a release into the environment at or on the property now or previously owned or leased by any of the Gothic Companies, or the storage or disposal of any Hazardous Material; (v) none of the Gothic Companies has received any claim, complaint, notice, inquiry or request for information which remains unresolved as of the date hereof with respect to any alleged violation of any Environmental Law or regarding potential liability under any Environmental Law relating to operations or conditions of any facilities or property owned, leased or operated by any of the Gothic Companies; (vi) there are no sites, locations or operations at which any of the Gothic Companies is currently undertaking, or has completed, any remedial or response action relating to any such disposal or release, as required by Environmental Laws; and (vii) all underground storage tanks and solid waste disposal facilities owned or operated by the Gothic Companies are used and operated in material compliance with Environmental Laws.

3.17 Vote Required. The affirmative vote of the holders of a majority of the outstanding shares of Gothic Common Stock and Gothic Preferred Stock voting as one class is the only vote of the holders of any class or series of Gothic capital stock or other voting securities necessary to approve this Agreement, the Merger and the transactions contemplated hereby.

3.18 Gothic Board of Directors Actions. The board of directors of Gothic has by requisite vote of all directors present: (a) determined that the Merger is advisable; (b) approved the Merger in accordance with the provisions of Section 1081 of the OGCA and the transactions contemplated by this Agreement; and (c) recommended the approval of this Agreement and the Merger by the holders of Gothic Common Stock and directed that the Merger be submitted for consideration by the holders of Gothic Common Stock and Gothic Preferred Stock at a meeting of such stockholders contemplated by paragraph 5.5 hereof.

3.19 Employment Contracts and Benefits. Except as otherwise set forth in Section 3.19 of the Gothic Disclosure Schedule or otherwise provided for in any Gothic Employee Benefit Plan: (a) none of the Gothic Companies is subject to or obligated under any consulting, employment, severance, termination or similar arrangement, any employee benefit, incentive or deferred compensation plan with respect to any Person, or any bonus, profit sharing, pension, stock option, stock purchase or similar plan or other arrangement or other fringe benefit plan entered into or maintained for the benefit of employees or any other Person; and (b) no employee of any of the Gothic Companies or any other Person owns, or has any rights granted by any of the Gothic Companies to acquire, any interest in any of the assets or business of any of the Gothic Companies. Section 3.19 of the Gothic Disclosure Schedule sets forth all indebtedness, promissory notes and other obligations owing by any employee, officer or non-employee director of the Gothic Companies including, without limitation, by employee, officer or non-employee director, the principal amount thereof, the interest rate applicable thereto, any collateral securing payment thereof, the payment terms and the maturity date thereof.

- 3.20 Labor Matters. No employees of any of the Gothic Companies are represented by any labor organization. No labor organization or group of employees of any of the Gothic Companies has made a demand for recognition or certification as a union or other labor organization, and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or threatened in writing to be brought or filed with the National Labor Relations Board or any other labor relations tribunal or authority. There are no organizing activities involving any of the Gothic Companies pending with any labor organization or group of employees of any of the Gothic Companies. Each of the Gothic Companies is in material compliance with all laws, rules, regulations and orders relating to the employment of labor, including all such laws, rules, regulations and orders relating to wages, hours, collective bargaining, discrimination, civil rights, safety and health, workers' compensation and the collection and payment of withholding or social security Taxes and similar Taxes, except where the failure to comply would not, individually or in the aggregate, have a Material Adverse Effect on the Gothic Companies.
- 3.21 Insurance. Each of the Gothic Companies maintains, and through the Closing Date will maintain, insurance with reputable insurers (or pursuant to prudent self-insurance programs) in such amounts and covering such risks as are in accordance with normal industry practice for companies engaged in businesses similar to those of the Gothic Companies and owning properties in the same general area in which the Gothic Companies conduct their businesses. Each of the insurance policies currently maintained by the Gothic Companies is described in Section 3.21 of the Gothic Disclosure Schedule. Each of the Gothic Companies may terminate each of its insurance policies or binders at or after the Closing and will incur no penalties or other material costs in doing so. None of the such policies or binders was obtained through the use of false or misleading information or the failure to provide the insurer with all information requested in order to evaluate the liabilities and risks insured. There is no material default with respect to any provision contained in any such policy or binder, nor has any of the Gothic Companies failed to give any notice or present any claim under any such policy or binder in due and timely fashion. There are no billed but unpaid premiums past due under any such policy or binder. Except as otherwise set forth in Section 3.21 of the Gothic Disclosure Schedule: (a) there are no outstanding claims under any such policies or binders and, to the knowledge of Gothic, there has not occurred any event that might reasonably form the basis of any claim against or relating to any of the Gothic Companies that is not covered by any of such policies or binders; (b) no notice of cancellation or non-renewal of any such policies or binders has been received; and (c) there are no performance bonds outstanding with respect to any of the Gothic Companies.
- 3.22 Intangible Property. Except as set forth in Section 3.22 of the Gothic Disclosure Schedule, there are no material trademarks, trade names, patents, service marks, brand names, computer programs, databases, industrial designs, copyrights or other intangible property that are necessary for the operation, or continued operation, of the business of any of the Gothic Companies or for the ownership and operation, or continued ownership or operation, of any of their assets, for which the Gothic Companies do not hold valid and continuing authority in connection with the use thereof. Section 3.22 of the Gothic Disclosure Schedule lists each seismic agreement to which any of the Gothic Companies is a party.
- 3.23 Title to Assets. The Gothic Companies (individually or collectively) have Defensible Title to all Oil and Gas Interests of Gothic included or reflected in the Ownership Interests and all of their other assets, subject only to Permitted Encumbrances. Each Oil and Gas Interest included or reflected in the Ownership Interests entitles the Gothic Companies (individually or collectively) to receive not less than the undivided Net Revenue Interest set forth in (or derived from) the Ownership Interests of all Hydrocarbons produced, saved and sold from or attributable to such Oil and Gas Interest, and the portion of such costs and expenses of operation and development of such Oil and Gas Interest that is borne or to be borne by the Gothic Companies (individually



or collectively) is not greater than the undivided Working Interest set forth in (or derived from) the Ownership Interests.

- 3.24 Opinion of Financial Advisor. On the date of execution of this Agreement, the board of directors of Gothic will receive the opinion of CIBC Worldmarkets that, as of such date, the consideration contemplated by paragraph 2.3.2 is fair from a financial point of view to the holders of Gothic Common Stock.
- 3.25 Oil and Gas Operations. Except as otherwise set forth in Section 3.25 of the Gothic Disclosure Schedule: (a) all wells included in the Oil and Gas Interests of Gothic have been drilled and (if completed) completed, operated and produced in accordance with generally accepted oil and gas field practices and in compliance in all material respects with applicable oil and gas leases and applicable laws, rules, regulations, except where the failure or violation could not reasonably be expected to have a Material Adverse Effect on Gothic or Gothic's ability to consummate the transactions contemplated hereby in accordance with this Agreement; and (b) proceeds from the sale of Hydrocarbons produced from Gothic's Oil and Gas Interests are being received by the Gothic Companies in a timely manner and are not being held in suspense for any reason (except for amounts, individually or in the aggregate, not in excess of \$250,000 and held in suspense in the ordinary course of business).
- 3.26 Financial and Commodity Hedging. Section 3.26 of the Gothic Disclosure Schedule accurately summarizes the outstanding Hydrocarbon and financial hedging positions of the Gothic Companies (including fixed price controls, collars, swaps, caps, hedges and puts) as of the date reflected on the Gothic Disclosure Schedule. After July 1, 2000, Gothic has not entered into and will not enter into any new hedging positions without Parent's prior written consent, which will not be unreasonably withheld.
- 3.27 Books and Records. All books, records and files of the Gothic Companies (including those pertaining to Gothic's Oil and Gas Interests, wells and other assets, the production, gathering, transportation and sale of Hydrocarbons, and corporate, accounting, financial and employee records): (a) have been prepared, assembled and maintained in accordance with usual and customary policies and procedures; and (b) fairly and accurately reflect the ownership, use, enjoyment and operation by the Gothic Companies of their respective assets.
- 3.28 Other Entities. Gothic has no direct or indirect equity interest in any corporation, partnership, limited liability company, joint venture, business association or other entity other than the entities included in the Gothic Companies (other than joint venture, joint operating or ownership arrangements entered into in the ordinary course of business or other partnerships that, individually or in the aggregate, are not material to the operations or businesses of the Gothic Companies, taken as a whole). Except as disclosed in Section 3.28 of the Gothic Disclosure Schedule, and except as may be required under the securities laws of any jurisdiction: (i) all of the outstanding capital stock of, or other ownership interests in, each subsidiary of Gothic, has been validly issued, is (in the case of capital stock) fully paid and nonassessable and (in the case of partnership interests) not subject to current or future capital calls, and is owned by Gothic, directly or indirectly, free and clear of any lien and free of any other charge, claim, encumbrance, limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other ownership interests); and (ii) there are not now, and at the Effective Time there will not be, any outstanding subscriptions, options, warrants, calls, rights, convertible securities or other agreements or commitments of any character relating to the issued or unissued capital stock or other securities of any of Gothic's subsidiaries, or otherwise obligating Gothic or any such subsidiary to issue, transfer or sell any such securities or to make any payments in respect of any of its securities or its equity.
- 3.29 Account Information. Section 3.29 of the Gothic Disclosure Schedule contains an accurate list of the names and addresses of every bank and other financial institution in which any Gothic Company maintains an account (whether checking, savings or otherwise), lock box or safe

deposit box, and the account numbers and Persons having signature authority or legal access thereto.

- 3.30 Powers of Attorney. There are no outstanding powers of attorney relating to or affecting any Gothic Company.
- 3.31 Plugging Status. All wells operated by any Gothic Company that have been permanently plugged and abandoned have been so plugged and abandoned in accordance in all material respects with all applicable requirements of each Governmental Authority having jurisdiction over the Gothic Companies and the Oil and Gas Interests.
- 3.32 No Knowledge of Breach of Representations. Gothic has no actual knowledge that any of the representations of Parent or Sub contained in this Agreement are untrue as of the date of this Agreement. If and to the extent that Gothic has any such knowledge as of the date of this Agreement, Gothic will not assert any remedy under this Agreement for breach of such representation (including, but not limited to, any right to not close the Merger due to a failure to satisfy the condition to Closing set forth in Section 6.3.1 arising solely as a result of any such breach).
- 3.33 Proxy Statement/Prospectus; Registration Statement. None of the information supplied or to be supplied by Gothic for inclusion or incorporation by reference in (1) the Proxy Statement/ Prospectus and any amendments or supplements thereto, or (2) the Registration Statement and any amendments or supplements thereto, will, at the respective times such documents are filed, (i) in the case of the Proxy Statement/Prospectus, at the time the Proxy Statement/Prospectus or any amendment or supplement thereto is first mailed to stockholders of Gothic, at the time such stockholders vote on approval and adoption of this Agreement and at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading and (ii) in the case of the Registration Statement, when it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. If at any time prior to Effective Time any event with respect to any of the Gothic Companies or their officers and directors will occur which is required to be described in an amendment of, or a supplement to, the Proxy Statement/Prospectus or the Registration Statement, such event will be so described, and such amendment or supplement will be promptly filed with the SEC and, as required by law, disseminated to the stockholders of Gothic. The Registration Statement will comply (with respect to Gothic) as to form in all material respects with the provisions of the Securities Act, and the Proxy Statement/Prospectus will comply (with respect to Gothic) as to form in all material respects with the provisions of the Exchange Act.
- 3.34 Equipment. All equipment constituting part of the Oil and Gas Interests has been installed, maintained, and operated by the Gothic Companies as a prudent operator in accordance with oil and gas industry standards, and is currently in a state of repair so as to be adequate for normal operations by the Gothic Companies, except where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect on the Gothic Companies (taken as a whole).
- 3.35 Current Commitments. Section 3.35 of the Gothic Disclosure Schedule and the expenses specifically permitted under the terms of paragraph 5.1.10 contain a true and reasonably complete list as of July 31, 2000, of all oral or written commitments for capital expenditures of more than \$50,000 with respect to any of the wells or the Oil and Gas Interests for which all of the activities anticipated in such commitments will not have been completed by the Effective Time. Except for those set forth in Section 3.35 of the Gothic Disclosure Schedule, as of Closing there will be no oral or written commitments for capital expenditures with respect to the Oil and Gas Interests.

- 3.36 Payout Balances. Section 3.36 of the Gothic Disclosure Schedule contains a reasonably complete and accurate list of the status, as of June 30, 2000 with respect to Gothic Company operated wells and as of March 31, 2000 with respect to third party operated wells, of: (a) the "payout" balance for each Oil and Gas Interest that is subject to a reversion or other adjustment at some level of cost recovery or payout (or passage of time or other event, other than cessation of production); and (b) all gas balancing obligations and rights for each Oil and Gas Interest which is subject to a gas balancing overage or underage.
- 3.37 Full Disclosure. The representations, warranties or other statements by all Gothic Companies in this Agreement or in the Gothic Disclosure Schedule or Exhibits hereto or any documents distributed generally to Gothic's stockholders, taken as a whole, do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein not misleading.
- 3.38 Certain Agreements. There are no contracts, agreements, arrangements or understandings to which any of the Gothic Companies is a party which create, govern or purport to govern the right of another party (other than Parent or Sub) to acquire any of the Gothic Companies.
- 3.39 Affiliate Transactions. There are no transactions between any of the Gothic Companies and any of their respective Affiliates, which are required to be disclosed in the Gothic SEC Documents which are not disclosed.
- 3.40 Employees, Officers and Directors Loans. With respect to each loan by any of the Gothic Companies to any officer, director or employee of any of the Gothic Companies: (a) prior to the execution of this Agreement each officer and employee has executed and delivered to the Gothic Companies a letter in the form set forth in Section 3.40 of the Gothic Disclosure Schedule irrevocably directing the Gothic Companies to apply the severance payments due to such officers and employees to the payment in full of such loans; and (b) prior to the execution of this Agreement each non-employee director of the Gothic Companies has executed and delivered to Gothic a pledge agreement in the form set forth in Section 3.40 of the Gothic Disclosure Schedule pledging to Gothic the Gothic Common Stock acquired with such loan (the "Pledged Stock"), has delivered possession of the Pledged Stock to Gothic and taken any additional or other actions appropriate to create and maintain a first perfected security interest in such Gothic Common Stock in favor of Gothic. On or before the Closing Date: (y) the Gothic Companies will first apply the severance payments due to such officers and employees against the unpaid principle balance and any accrued but unpaid interest owing under such officers and employees' loans, with any remaining amount to be paid in accordance with the terms and conditions of the Gothic severance policy; and (z) the Gothic Companies will deliver any remaining unpaid promissory notes, the pledge agreements for the non-employee directors and the Pledged Stock for the non-employee directors to Parent together with the promissory notes secured thereby. The Gothic Companies will: (i) take any and all action necessary to maintain in full force and effect the foregoing promissory notes, instruction letters, pledge agreements and first perfected security interests in all Pledged Stock; (ii) not amend, forgive, waive compliance with or otherwise release any rights under any of the foregoing except on payment in full of the applicable obligation; and (iii) assist in the collection and enforcement of the foregoing agreements and obligations. All of the parties hereto agree that the first perfected security interest in the Pledged Stock will continue in all of the Parent Common Stock which is exchanged or exchangeable for the Pledged Stock pursuant to this Agreement. Gothic hereby acknowledges and agrees that any failure to comply with the provisions of this paragraph 3.40 by Michael Paulk, Steven Ensz or the non-employee directors at any time to and including the Closing Date will constitute a Material Adverse Effect.

4. PARENT AND SUB REPRESENTATIONS AND WARRANTIES. Except as set forth in the Parent Disclosure Schedule, Parent and Sub hereby jointly and severally represent and warrant to Gothic that:

4.1 Corporate Organization. Each of Parent and Sub: (a) is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation; (b) has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its business as it is presently being conducted; and (c) is duly qualified to do business as a foreign corporation, and is in good standing, in each jurisdiction where the character of the properties owned or leased by it or the nature of its activities makes such qualification necessary (except where any failure to be so qualified as a foreign corporation or to be in good standing would not, individually or in the aggregate, have a Material Adverse Effect on Parent). Copies of the certificate or articles of incorporation and bylaws of each of Parent and Sub have heretofore been delivered to Gothic, and such copies are accurate and complete as of the date hereof.

4.2 Authority and Enforceability. Each of Parent and Sub has the requisite corporate power and authority to execute and deliver this Agreement and (with respect to consummation of this Agreement and the Merger, subject to the approval of the Parent as the sole stockholder of Sub) to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action on the part of Parent and Sub, including approval by the respective boards of directors of Parent and Sub and by Parent as the sole stockholder of Sub, and no other corporate proceedings on the part of Parent or Sub are necessary to authorize the execution or delivery of this Agreement or (with approval by the Parent as the stockholder of Sub) to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by each of Parent and Sub and (with respect to consummation of this Agreement and the Merger, assuming that this Agreement constitutes a valid and binding obligation of Gothic) constitutes a valid and binding obligation of each of Parent and Sub, enforceable against Parent and Sub in accordance with its terms.

4.3 No Violations. The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby and compliance by Parent and Sub with the provisions hereof will not, conflict with, result in any violation of or default (with or without notice or lapse of time or both) under, give rise to a right of termination, cancellation or acceleration of any obligation or to the loss of a material benefit under, or result in the creation of any Lien on any of the properties or assets of Parent or any Parent Subsidiary under, any provision of: (a) the certificate of incorporation or bylaws of Parent or Sub or any provision of the comparable charter or organizational documents of any Parent Subsidiary; (b) any loan or credit agreement, note, bond, mortgage, indenture, lease, permit, concession, franchise, license or other agreement or instrument applicable to Parent or any Parent Subsidiary; or (c) assuming the consents, approvals, authorizations or permits and filings or notifications referred to in paragraph 4.4 are duly and timely obtained or made, any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Parent or any Parent Subsidiary or any of their respective properties or assets, other than, in the case of clause (b) or (c) above, any such conflict, violation, default, right, loss or Lien that has been waived or consented to or that, individually or in the aggregate, would not have a Material Adverse Effect on Parent or Parent's or Sub's ability to consummate the transactions contemplated hereby in accordance with this Agreement.

4.4 Consents and Approvals. No consent, approval, order or authorization of, registration, declaration, or filing with, or permit from, any Governmental Authority is required by or with respect to Parent or Sub in connection with the execution and delivery of this Agreement by Parent or Sub or the consummation by Parent and Sub of the transactions contemplated hereby except for the following: (a) any such consent, approval, order, authorization, registration, declaration, filing or permit which the failure to obtain or make would not, individually or in the

aggregate, have a Material Adverse Effect on Parent or Parent's or Sub's ability to consummate the transactions contemplated hereby in accordance with this Agreement; (b) the filing of the Certificate of Merger with the Secretary of State of Oklahoma pursuant to the provisions of the OGCA; (c) the filing, if necessary, of a pre-merger notification report by Parent under the HSR Act and the expiration or termination of the applicable waiting period; (d) the filing with the SEC of the Proxy Statement/Prospectus and the Registration Statement and such reports under Section 13(a) of the Exchange Act and such other compliance with the Exchange Act and the Securities Act and the rules and regulations of the SEC thereunder as may be required in connection with this Agreement and the transactions contemplated hereby and the obtaining from the SEC of such orders as may be so required; (e) the filing with the Exchange of a listing application relating to the shares of Parent Common Stock to be issued pursuant to the Merger and the obtaining from the Exchange of its approval thereof; (f) such filings and approvals as may be required by any applicable state securities, "blue sky" or takeover laws or Environmental Laws; and (g) the valid approval of this Agreement and the Merger by the board of directors of Parent and Sub.

- 4.5 Parent SEC Documents. Gothic has had available to it a true, correct and complete copy of each report, schedule, registration statement and definitive proxy statement filed by Parent with the SEC since December 31, 1998, and prior to the date of this Agreement (the "Parent SEC Documents"), which are all the documents (other than preliminary material) that Parent was required to file with the SEC since such date. As of their respective dates, the Parent SEC Documents complied in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the SEC thereunder applicable to such Parent SEC Documents, and none of the Parent SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.
- 4.6 Financial Statements. The Parent Financial Statements were prepared in accordance with the applicable published rules and regulations of the SEC with respect thereto and in accordance with GAAP applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto or, in the case of unaudited statements, as permitted by Rule 10-01 of Regulation S-X of the SEC) and fairly present in all material respects, in accordance with applicable requirements of GAAP (in the case of unaudited statements, subject to normal, recurring adjustments), the consolidated financial position of Parent and the Parent Subsidiaries as of their respective dates and the consolidated results of operations and the consolidated cash flows of Parent and the Parent Subsidiaries for the periods presented therein.
- 4.7 Capital Structure. The authorized capital stock of Parent consists of 250,000,000 shares of Parent Common Stock and 10,000,000 shares of preferred stock of which 148,768,103 shares of Parent Common Stock and 624,037 shares of preferred stock were issued and outstanding as of August 23, 2000. The authorized capital stock of Sub consists of 1,000 shares of Sub Common Stock. Except as set forth in the two preceding sentences and in Section 4.7 of the Parent Disclosure Schedule, there are: (a) no outstanding shares of capital stock or other voting securities of Parent (other than shares issued since August 23, 2000, upon the exercise of outstanding options described in Section 4.7 of the Parent Disclosure Schedule); (b) no outstanding securities of Parent convertible into or exchangeable or exercisable for shares of capital stock or other voting securities of Parent; and (c) no outstanding subscriptions, options, warrants, calls, rights (including preemptive rights, commitments, understandings or agreements to which Parent is a party or by which it is bound) obligating Parent to issue, deliver, sell, purchase, redeem or acquire shares of capital stock or other voting securities of Parent (or securities of Parent) or obligating Parent to grant, extend or enter into any such subscription, option, warrant, call, right, commitment, understanding or agreement. All outstanding shares of Parent capital stock are, and (when issued) the shares of Parent Common Stock to be issued

pursuant to the Merger will be, validly issued, fully paid and nonassessable and not subject to any preemptive right. There are 1,000 shares of Sub Common Stock issued and outstanding, all of which are owned by Parent. All outstanding shares of Sub Common Stock are validly issued, fully paid and nonassessable and not subject to any preemptive right. As of the date hereof there is no, and at the Effective Time there will not be any, stockholder agreement, voting trust or other agreement or understanding to which Parent is a party or by which it is bound relating to the voting of any shares of the capital stock of Parent.

- 4.8 Governmental Regulation. Neither Parent nor any of the Parent Subsidiaries is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act, the Investment Company Act of 1940 or any state public utilities laws.
- 4.9 Litigation. Except as set forth in Section 4.9 of the Parent Disclosure Schedule, there is no litigation, arbitration, investigation or other proceeding of any Governmental Authority or other Person pending or, to the knowledge of Parent, threatened against Parent or a Parent Subsidiary or their respective assets which, if adversely determined, could reasonably be expected to have a Material Adverse Effect on Parent or Parent's ability to consummate the transactions contemplated hereby in accordance with this Agreement. Parent has no knowledge of any facts that are likely to give rise to any litigation, arbitration, investigation or other proceeding of any Governmental Authority or other Person which, individually or in the aggregate, is reasonably likely to have a Material Adverse Effect on Parent or Parent's ability to consummate the transactions contemplated hereby in accordance with this Agreement. No Parent Company is subject to any outstanding injunction, judgment, order, decree or ruling (other than routine oil and gas field regulatory orders and any injunction, judgment, order, decree or ruling that, either individually or in the aggregate, would not have a Material Adverse Effect) on Parent or Parent's ability to consummate the transactions contemplated hereby in accordance with this Agreement. There is no litigation, investigation or other proceeding of any Governmental Authority or other Person pending or, to the knowledge of Parent, threatened against or affecting Parent, Sub or a Parent Subsidiary that questions the validity or enforceability of this Agreement or any other document, instrument or agreement to be executed and delivered by Parent or Sub in connection with the transactions contemplated hereby.
- 4.10 Interim Operations of Sub. Sub was formed solely for the purpose of engaging in the transactions contemplated by this Agreement and has not engaged in any business or activity (or conducted any operations) of any kind, entered into any agreement or arrangement with any Person, or incurred, directly or indirectly, any material liabilities or obligations, except in connection with its incorporation, the negotiation of this Agreement, the Merger and transactions contemplated hereby.
- 4.11 Brokers. Other than Bear, Stearns & Co. Inc. (the "Financial Advisor"), no broker, finder, investment banker or other Person is or will be, in connection with the transactions contemplated by this Agreement, entitled to any brokerage, finder's or other fee or compensation based on any arrangement or agreement made by or on behalf of Parent or Sub and for which Parent or Sub or any of the Gothic Companies will have any obligation or liability.
- 4.12 Absence of Certain Changes. Except as set forth in Section 4.12 of the Parent Disclosure Schedule, since June 30, 2000, the Parent Companies have conducted their businesses only in the ordinary course of business consistent with past practices and, since such date, there has not been any event (financial or otherwise, whether or not in the ordinary course of business), circumstance or condition that: (a) would be reasonably likely to have a Material Adverse Effect on Parent or Parent's ability to consummate the transactions contemplated hereby in accordance with this Agreement; or (b) would have required the consent of Gothic pursuant to paragraph 5.2 had such event occurred after the date of this Agreement (other than changes, including changes in commodity prices generally affecting the oil and gas industry, changes

resulting from exploration or development results reported in the ordinary course of business and changes arising from the announcement of the Merger).

- 4.13 Compliance with Laws and Permits. None of the Parent Companies is in violation of, or in default under, and no event has occurred that (with notice or the lapse of time or both) would constitute a violation of or default under: (a) its certificate or articles of incorporation or bylaws or partnership agreement or other governing document; or (b) any applicable law, rule, regulation, order, writ, decree or judgment of any Governmental Authority, except (in the case of clause (b) above) for any violation or default that would not, individually or in the aggregate, have a Material Adverse Effect on Parent or Parent's or Sub's ability to consummate the transactions contemplated hereby in accordance with this Agreement. Each of the Parent Companies has obtained and holds all permits, licenses, variances, exemptions, orders, franchises, approvals and authorizations of all Governmental Authorities necessary for the lawful conduct of its business or the lawful ownership, use and operation of its assets ("Parent Permits"), except for Parent Permits which the failure to obtain or hold would not, individually or in the aggregate, have a Material Adverse Effect on Parent or Parent's or Sub's ability to consummate the transactions contemplated hereby in accordance with this Agreement. Each of the Parent Companies is in compliance with the terms of its Parent Permits, except where the failure to comply would not, individually or in the aggregate, have a Material Adverse Effect on Parent or Parent's or Sub's ability to consummate the transactions contemplated hereby in accordance with this Agreement. No investigation or review by any Governmental Authority with respect to any of the Parent Companies is pending or, to the knowledge of Parent, threatened, other than those the outcome of which would not, individually or in the aggregate, have a Material Adverse Effect on Parent or Parent's or Sub's ability to consummate the transactions contemplated hereby in accordance with this Agreement.
- 4.14 No Restrictions. Except as otherwise set forth in Section 4.14 of the Parent Disclosure Schedule, none of the Parent Companies is a party to: (a) any agreement, indenture or other instrument that contains restrictions with respect to the payment of dividends or other distributions with respect to its capital stock; (b) any financial arrangement with respect to or creating any indebtedness to any Person (other than indebtedness reflected in the Parent Financial Statements or indebtedness incurred in the ordinary course of business); (c) any agreement, contract or commitment relating to the making of any advance to, or investment in, any Person (other than advances in the ordinary course of business); (d) any guaranty or other contingent liability with respect to any indebtedness or obligation of any Person (other than guaranties undertaken in the ordinary course of business and other than the endorsement of negotiable instruments for collection in the ordinary course of business); or (e) any agreement, contract or commitment limiting in any respect its ability to compete with any Person or otherwise conduct business of any line or nature.
- 4.15 Taxes. Except as set forth in Section 4.15 of the Parent Disclosure Schedule:
- 4.15.1 Parent and each Parent Subsidiary, and any affiliated, combined or unitary group of which Parent or any Parent Subsidiary is or was a member has properly completed and timely (taking into account any extensions) filed all material federal, state, local and foreign returns, declarations, reports, estimates, information returns and statements ("Parent Returns") required to be filed in respect of any Tax and has timely paid all Taxes that are shown by such Parent Returns to be due and payable. The Parent Returns correctly and accurately (except for one or more matters the aggregate effect of which is not material) reflect the facts regarding the income, business and assets, operations, activities, status or other matters of Parent required to be shown thereon or any other information required to be shown thereon and are not subject to penalties under Section 6662 of the Code, relating to accuracy-related penalties, or any corresponding provision of applicable state, local or foreign tax law or any predecessor provision. Parent and each Parent Subsidiary has established reserves that are adequate in the aggregate for

the payment of all material Taxes not yet due and payable with respect to the results of operations of Parent and each Parent Subsidiary through the date hereof Parent and each Parent Subsidiary have complied in all material respects with all applicable laws, rules and regulations relating to the payment and withholding of Taxes and the filing of material federal, state or local Parent Returns.

- 4.15.2 Section 4.15.2 of the Parent Disclosure Schedule sets forth the last taxable period through which the federal income Tax Returns of Parent and each Parent Subsidiary have been examined by the IRS. Except to the extent being contested in good faith, all material deficiencies asserted as a result of such examinations and any examination by any applicable state or local taxing authority have been paid, fully settled or adequately provided for in Parent's most recent audited financial statements. No material federal, state or local income or franchise tax audits or other administrative proceedings or court proceedings are presently pending with regard to any Taxes for which Parent or any of the Parent Subsidiaries would be liable, and no material deficiency which has not yet been paid for any such Taxes has been proposed, asserted or assessed against Parent or any of the Parent Subsidiaries with respect to any period. No claim has been asserted by any authority in any jurisdiction where the Parent Companies do not file Returns that any Parent Company is subject to Tax in that jurisdiction.
- 4.15.3 Except as disclosed on Section 4.15.3 of the Parent Disclosure Schedule, neither Parent nor any Parent Subsidiary has executed or entered into (or prior to the close of business on the Closing Date will execute or enter into) with the IRS or any taxing authority: (i) any agreement extending the period for assessment or collection of any Tax for which Parent or any Parent Subsidiary is liable for any period that is open under the applicable statute of limitations; or (ii) a closing agreement pursuant to Section 7121 of the Code or any similar provision of state or local income tax law that relates to Parent or any Parent Subsidiary for the current or any future taxable period. Neither Parent nor any Parent Subsidiary has made an election under Section 341(f) of the Code or has agreed to have Section 341(f)(2) of the Code apply to any disposition of a subsection (f) asset (as such term is defined in Section 341(f)(4) of the Code) owned by Parent or any Parent Subsidiary. Neither Parent nor any Parent Subsidiary is a party to, is bound by or has any obligation under any tax sharing agreement or similar agreement or arrangement. Neither Parent nor any Parent Subsidiary is a party to any agreement or other arrangement that, as a consequence of the Merger would result separately or in the aggregate in the payment of any "excess parachute payments" within the meaning of Section 280G of the Code.
- 4.15.4 There are no liens for Taxes (other than for current Taxes not yet due and payable) on the assets of Parent or any Parent Subsidiary.
- 4.15.5 Except for the group of which Parent is presently a member, neither Parent nor any Parent Subsidiary has ever been a member of an "affiliated group of corporations" within the meaning of Section 1504 of the Code, other than as a common parent corporation.
- 4.15.6 After the date hereof, no election which is inconsistent with past practices with respect to Taxes will be made without the written consent of Gothic.
- 4.15.7 None of the assets of Parent or any Parent Subsidiary is property that Parent is required to treat as being owned by any other person pursuant to the "safe harbor lease" provisions of former Section 168(f)(8) of the Code.
- 4.15.8 None of the assets of Parent or any Parent Subsidiary directly or indirectly secures any debt the interest on which is tax-exempt under Section 103(a) of the Code.
- 4.15.9 None of the assets of Parent or any Parent Subsidiary is "tax-exempt use property" within the meaning of Section 168(h) of the Code.



- 4.15.10 Neither Parent nor any Parent Subsidiary has agreed to make nor is it required to make any adjustment under Section 481(a) of the Code by reason of a change in accounting method or otherwise which will have any Material Adverse Effect on any Tax for a period which ends after December 31, 1999.
- 4.16 Environmental Matters. Except as set forth in Section 4.16 of the Parent Disclosure Schedule or the Parent SEC Documents: (i) the reserves reflected in the Parent Financial Statements relating to environmental matters were adequate under GAAP as of June 30, 2000, and neither Parent nor any of the Parent Subsidiaries has incurred any material liability in respect of any environmental matter since that date; and (ii) the Parent SEC Documents include all information relating to environmental matters required to be included therein under the rules and regulations of the SEC applicable thereto. Except as set forth in Section 4.16 of the Parent Disclosure Schedule or the Parent SEC Documents, to the knowledge of Parent: (a) each of the Parent Companies has conducted its business and operated its assets, and is conducting its business and operating its assets, in material compliance with all Environmental Laws; (b) none of the Parent Companies has been notified by any Governmental Authority that any of the operations or assets of any of the Parent Companies is the subject of any investigation or inquiry by any Governmental Authority evaluating whether any material remedial action is needed to respond to a release of any Hazardous Material or to the improper storage or disposal (including storage or disposal at offsite locations) of any Hazardous Material; (c) none of the Parent Companies and no other Person has filed any notice under any federal, state or local law indicating that: (i) any of the Parent Companies is responsible for the improper release into the environment, or the improper storage or disposal of any Hazardous Material; or (ii) any Hazardous Material is improperly stored or disposed of upon any property of any of the Parent Companies; (d) none of the Parent Companies has any material contingent liability in connection with a release into the environment at or on the property now or previously owned or leased by any of the Parent Companies or the storage or disposal of any Hazardous Material; (e) none of the Parent Companies has received any claim, complaint, notice, inquiry or request for information which remains unresolved as of the date hereof with respect to any alleged violation of any Environmental Law or regarding potential liability under any Environmental Law relating to operations or conditions of any facilities or property owned, leased or operated by any of the Parent Companies; (f) there are no sites, locations or operations at which any of the Parent Companies is currently undertaking, or has completed, any remedial or response action relating to any such disposal or release, as required by Environmental Laws; and (g) all underground storage tanks and solid waste disposal facilities owned or operated by the Parent Companies are used and operated in material compliance with Environmental Laws.
- 4.17 Employment Contracts and Benefits. Section 4.17 of the Parent Disclosure Schedule sets forth each of the Parent's employee benefit plans ("Parent Employee Benefit Plan") and except as otherwise set forth in Section 4.17 of the Parent Disclosure Schedule or otherwise provided for in any Parent Employee Benefit Plan: (a) none of the Parent Companies is subject to or obligated under any consulting, employment, severance, termination or similar arrangement, any employee benefit, incentive or deferred compensation plan with respect to any Person, or any bonus, profit sharing, pension, stock option, stock purchase or similar plan or other arrangement or other fringe benefit plan entered into or maintained for the benefit of employees of any other Person; and (b) no employee of any of the Parent Companies owns, or has any rights granted by any of the Parent Companies to acquire, any interest in any of the assets or business of any of the Parent Companies.
- 4.18 Labor Matters. No employees of any of the Parent Companies are represented by any labor organization. No labor organization or group of employees of any of the Parent Companies has made a demand for recognition or certification as a union or other labor organization, and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or threatened in writing to be brought or filed with the National Labor

Relations Board or any other labor relations tribunal or authority. There are no organizing activities involving any of the Parent Companies pending with any labor organization or group of employees of any of the Parent Companies. Each of the Parent Companies is in material compliance with all laws, rules, regulations and orders relating to the employment of labor, including all such laws, rules, regulations and orders relating to wages, hours, collective bargaining, discrimination, civil rights, safety and health, workers' compensation and the collection and payment of withholding or Social Security Taxes and similar Taxes, except where the failure to comply would not, individually or in the aggregate, have a Material Adverse Effect on Parent.

- 4.19 Insurance. Each of the Parent Companies maintains, and through the Closing Date will maintain, insurance with reputable insurers (or pursuant to prudent self-insurance programs) in such amounts and covering such risks as are in accordance with normal industry practice for companies engaged in businesses similar to those of the Parent Companies and owning properties in the same general area in which the Parent Companies conduct their businesses. None of the policies or binders was obtained through the use of false or misleading information or the failure to provide the insurer with all information requested in order to evaluate the liabilities and risks insured. There is no material default with respect to any provision contained in any such policy or binder, nor has any of the Parent Companies failed to give any notice or present any claim under any such policy or binder in due and timely fashion.
- 4.20 Intangible Property. Except as set forth in Section 4.20 of the Parent Disclosure Schedule, there are no material trademarks, trade names, patents, service marks, brand names, computer programs, databases, industrial designs, copyrights or other intangible property that are necessary for the operation, or continued operation, of the business of any of the Parent Companies or for the ownership and operation, or continued ownership or operation, of any their assets, for which the Parent Companies do not hold valid and continuing authority in connection with the use thereof.
- 4.21 Opinion of Financial Advisor. The board of directors of Parent has received the opinion dated as of the date hereof of the Financial Advisor addressed to such board of directors that the Merger is fair from a financial point of view to the holders of Parent Common Stock.
- 4.22 Books and Records. All books, records and files of the Parent Companies (including those pertaining to Parent's Oil and Gas Interests, wells and other assets, the production, gathering, transportation and sale of Hydrocarbons, and corporate, accounting, financial and employee records): (a) have been prepared, assembled and maintained in accordance with usual and customary policies and procedures; and (b) fairly and accurately reflect the ownership, use, enjoyment and operation by the Parent Companies of their respective assets.
- 4.23 Employee Benefit Plans. Each Parent Benefit Plan has been established and administered in all material respects in accordance with its terms, and in all material respects in compliance with the applicable provisions of ERISA, the Code and other applicable laws, rules and regulations and each Parent Benefit Plan which is intended to be qualified within the meaning of Code Section 401(a) is so qualified. Except as set forth in Section 4.23(b) of the Parent Disclosure Schedule: (i) no Parent Benefit Plan currently has any "accumulated funding deficiency" as such term is defined in ERISA Section 302 and Code Section 412 (whether or not waived); (ii) no event or condition exists or is expected to occur which is a reportable event within the meaning of ERISA Section 4043 with respect to any Parent Benefit Plan that is subject to Title IV of ERISA and with respect to which the 30-day notice requirement has not been waived; (iii) each member of Parent's Controlled Group (as defined below) has made all required premium payments when due to the PBGC; (iv) neither Parent nor any member of its Controlled Group is subject to any liability to the PBGC for any Parent Benefit Plan termination; (v) no amendment has occurred which requires Parent or any member of its Controlled Group to provide security pursuant to Code Section 401(a)(29); and (vi) neither

Parent nor any member of its Controlled Group has engaged in a transaction which is reasonably likely to subject it to liability under ERISA Section 4069. For the purposes of this paragraph 4.23, the term "Controlled Group" means all corporations, trades or businesses which, together with Parent, are treated as a single employer under Section 414 of the Code.

4.24 Proxy Statement/Prospectus; Registration Statement. None of the information supplied or to be supplied by Parent for inclusion or incorporation by reference in (1) the Proxy Statement/ Prospectus, and any amendments or supplements thereto, or (2) the Registration Statement, and any amendments or supplements thereto, will, at the respective times such documents are filed, (i) in the case of the Proxy Statement/Prospectus, at the time the Proxy Statement/Prospectus or any amendment or supplement thereto is first mailed to stockholders of Gothic, at the time such stockholders vote on approval and adoption of this Agreement and at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading and, (ii) in the case of the Registration Statement, when it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. If at any time prior to Effective Time any event with respect to any of the Parent Companies or their officers and directors will occur which is required to be described in an amendment of, or a supplement to, the Proxy Statement/Prospectus or the Registration Statement, such event will be so described, and such amendment or supplement will be promptly filed with the SEC and, as required by law, disseminated to the stockholders of Gothic. The Registration Statement will comply (with respect to Parent) as to form in all material respects with the provisions of the Securities Act, and the Proxy Statement/Prospectus will comply (with respect to Parent) as to form in all material respects with the provisions of the Exchange Act.

4.25 No Knowledge of Breach of Representations. Parent has no actual knowledge that any of Gothic's representations contained in this Agreement are untrue as of the date of this Agreement. If and to the extent that Parent has any such knowledge as of the date of this Agreement, Parent will not assert any remedy under this Agreement for breach of such representation (including, but not limited to, any right to not close the Merger due to a failure to satisfy the condition to Closing set forth in paragraph 6.2.1 arising solely as a result of any such breach).

5. COVENANTS. From the date hereof until the Effective Time, Parent, Sub and Gothic hereby covenant and agree as follows:

5.1 Conduct of Gothic Business Pending Closing. From the date hereof until the Effective Time, Gothic covenants and agrees that, unless Parent otherwise agrees in writing, the businesses of the Gothic Companies will be conducted only in, and the Gothic Companies will not take any action except in, the ordinary course of business and in a manner consistent with past practice, and Gothic will use its reasonable best efforts to preserve substantially intact the business organization of the Gothic Companies, to keep available the services of the current officers, employees and consultants of the Gothic Companies and to preserve the goodwill of those current relationships of the Gothic Companies with customers, suppliers and other Persons with which the Gothic Companies have significant business relations. By way of amplification and not limitation, except as contemplated by this Agreement, the Gothic Companies will not, between the date of this Agreement and the Effective Time, directly or indirectly do, or propose to do, any of the following without the prior written consent of Parent:

5.1.1 Amend or otherwise change the certificate of incorporation or bylaws or equivalent organizational documents of the Gothic Companies;

5.1.2 Issue, sell, pledge, dispose of, grant, encumber, or authorize the issuance, sale, pledge, disposition, grant or encumbrance of: (a) any shares of any class of capital stock of the

Gothic Companies, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of such capital stock, or any other ownership interest (including, without limitation, any phantom interest), of the Gothic Companies (except for the issuance of shares of Gothic Common Stock issuable on conversion of the Gothic Preferred Stock and issuable pursuant to Gothic Stock Options and Gothic Warrants outstanding on the date hereof and disclosed in the Gothic Disclosure Schedule); or (b) any assets of the Gothic Companies, except for sales of products in the ordinary course of business;

- 5.1.3 Declare, set aside, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any of its capital stock (except for such declarations, set asides, dividends and other distributions made from the Gothic Subsidiary to Gothic or payment-in-kind dividends to Parent on the Gothic Preferred Stock);
- 5.1.4 Reclassify, combine, split, subdivide or redeem, purchase or otherwise acquire, directly or indirectly, any capital stock or amend or modify any warrant or other right to acquire any capital stock;
- 5.1.5 (a) Acquire (including, without limitation, by merger, consolidation, or acquisition of stock or assets) any corporation, partnership, other business organization or any division thereof or any material amount of assets other than in the ordinary course of business; (b) incur any indebtedness for borrowed money in excess of the existing borrowing base under the current Bank Credit Agreement or issue any debt securities or assume, guarantee or endorse, or otherwise as an accommodation become responsible for, the obligations of any Person, or make any loans, advances or capital contribution to, or investments in, any other Person (other than such of the foregoing as are made by Gothic to or in a wholly-owned subsidiary of Gothic), except in the ordinary course of business and consistent with past practice, but in no event in excess of \$1.0 million; or (c) enter into or amend any contract, agreement, commitment or arrangement with respect to any matter set forth in this paragraph 5.1.5;
- 5.1.6 Increase the compensation payable or to become payable to any officers or employees, except for increases in accordance with past practices in salaries or wages of employees of the Gothic Companies who are not officers of the Gothic Companies, or grant any severance or termination pay to, or enter into any employment or severance agreement with, any director, officer or other employee of the Gothic Companies, or establish, adopt, enter into, modify or amend any collective bargaining, bonus, profit sharing, thrift, compensation, stock option except as set forth in paragraph 2.3.4, restricted stock, pension, retirement, deferred compensation, employment, termination, severance phantom stock plan or other plan, agreement, trust, fund, policy or arrangement for the benefit of any director, officer or employee;
- 5.1.7 Make any material Tax election or settle or compromise any material federal, state, local or foreign income Tax liability;
- 5.1.8 Pay, discharge or satisfy any claim, liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction, in the ordinary course of business and consistent with past practice, of liabilities reflected or reserved against in the Gothic Financial Statements or subsequently incurred in the ordinary course of business and consistent with past practices;
- 5.1.9 Settle or compromise any pending or threatened suit, action or claim which is material or which relates to any of the transactions contemplated hereby, except if such settlement or compromise would not have a Material Adverse Effect;

- 5.1.10 Undertake: (a) any capital commitment outside Arkansas, Kansas, Oklahoma and that portion of the State of Texas located north of latitude 34 degrees N (the "Midcontinent Area"); (b) any new land or lease initiatives; (c) any capital expenditures in the Midcontinent Area in an individual amount greater than \$75,000 or, when aggregated with all other capital commitments, in an aggregate amount greater than \$500,000, unless such capital expenditure is in an oil and gas well proposed by a Parent Company or proposed by a third party and participated in by a Parent Company; or (d) any new well proposals or regulatory or governmental action with respect to any well activities; provided, however, the restrictions on capital expenditures set forth in this paragraph 5.1.10 will not apply to the McClellan MOC Federal 21 Well, the McClellan MOC Federal 22 Well or the Sinclair 2-4 Well so long as such wells are drilled to the depths and in accordance with the terms set forth in the respective AFEs for such wells dated April 25, 2000, June 19, 2000 and July 18, 2000;
- 5.1.11 Take or cause to be taken any action which would disqualify the Merger as a 368 Reorganization for Tax purposes;
- 5.1.12 Amend, modify, terminate, waive or permit to lapse any material right of first refusal, preferential right, right of first offer or any other material right of any of the Gothic Companies; or
- 5.1.13 Take or offer or propose to take, or agree to take in writing, or otherwise, any of the actions described in paragraphs 5.1.1 through 5.1.12 of this paragraph 5.1 or any action which would result in any of the conditions to the Merger not being satisfied.
- 5.2 Conduct of Parent Business Pending Closing. From the date hereof until the Effective Time, Parent covenants and agrees that, except to the extent contemplated in the Parent SEC Documents, as set forth below, or as otherwise agreed to in writing, the businesses of Parent and the Parent Subsidiaries will be conducted only in, and Parent and the Parent Subsidiaries will not take any action except in, the ordinary course of business and in a manner consistent with past practice, and Parent will use its reasonable best efforts to preserve substantially intact the business organization of Parent and the Parent Subsidiaries, to keep available the services of the current officers, employees and consultants of Parent and the Parent Subsidiaries and to preserve the goodwill of those current relationships of Parent and the Parent Subsidiaries with customers, suppliers and other Persons with which Parent or any Parent Subsidiary has significant business relations. By way of amplification and not limitation, except as contemplated by this Agreement, Parent will not, between the date of this Agreement and the Effective Time, directly or indirectly do, or propose to do, any of the following without the prior written consent of Gothic:
- 5.2.1 Amend or otherwise change the certificate of incorporation (excluding any certificate of elimination filed with respect to the Parent Preferred Stock) or bylaws of Parent;
- 5.2.2 Reclassify, combine, split, subdivide or redeem, purchase or otherwise acquire, directly or indirectly, any Parent Common Stock; or
- 5.2.3 Take or cause to be taken any action which would disqualify the Merger as a 368 Reorganization for Tax purposes.
- 5.3 Access to Information. The Parent Companies and the Gothic Companies agree that:
- 5.3.1 Gothic will (and will cause each of the other Gothic Companies to) afford to Parent and Parent Representatives (including, without limitation, directors, officers and employees of Parent and its Affiliates, and counsel, accountants and other professionals retained by Parent) such access, during normal business hours throughout the period prior to the Effective Time, to Gothic's books, records (including, without limitation, Tax returns and work papers of Gothic's independent auditors), properties, personnel and to such other information as Parent reasonably requests and will permit Parent to make such

inspections as Parent may reasonably request and will cause the officers of all of the Gothic Companies to furnish Parent with such financial and operating data and other information with respect to the business, properties and personnel of the Gothic Companies as Parent may from time to time reasonably request, provided, however, that no investigation pursuant to this paragraph 5.3 will affect or be deemed to modify any of the representations or warranties made by Gothic in this Agreement.

- 5.3.2 If and to the extent necessary for the preparation of the opinion specified in paragraph 3.24 hereof, the Parent Companies will afford to Gothic's financial advisors reasonable access during normal business hours to the executive officers of the Parent Companies, provided that such advisors first execute a confidentiality agreement satisfactory to the Parent Companies and their counsel and conduct such investigation in a manner that does not interfere unreasonably with the schedules of the Parent Companies' executive officers.
- 5.4 No Solicitation. Immediately following the execution of this Agreement, the Gothic Companies:
- 5.4.1 Will (and will cause each of the Gothic Representatives to) terminate any and all existing activities, discussions and negotiations with third parties (other than Parent) with respect to any possible transaction involving any proposal to acquire all or any part of the Gothic Common Stock or all or a material portion of the assets, business or equity interest of Gothic (other than the transactions contemplated by this Agreement), whether by merger, purchase of assets, tender offer, exchange offer or otherwise.
- 5.4.2 Will not (and will cause the Gothic Representatives not to), directly or indirectly: (a) solicit, initiate or encourage the submission of, any offer or proposal to acquire all or more than three percent (3%) of the Gothic Common Stock or all or any material portion of the assets, business or equity interests of Gothic or any other transaction the consummation of which would or could reasonably be expected to impede, interfere with, prevent or materially delay the consummation of the Merger (other than the transactions contemplated by this Agreement), whether by merger, purchase of assets, tender offer, exchange offer or otherwise (an "Alternative Proposal"); (b) engage in negotiations or discussions concerning or provide any non-public information to any Person relating to an Alternative Proposal; or (c) agree to, approve or recommend, or otherwise facilitate any effort or attempt to make or implement, any Alternative Proposal, or withdraw its recommendation of the Merger, provided, however, that: (i) Gothic's board of directors may take and disclose to the stockholders of Gothic a position contemplated by Rule 14e-2(a) promulgated under the Exchange Act with regard to an Alternative Proposal; and (ii) following receipt from a third party (without any solicitation, initiation or encouragement, directly or indirectly, by Gothic or any Gothic Representatives) of a bona fide written Alternative Proposal, (x) Gothic may, upon written notice to Parent, engage in discussions or negotiations with such third party and may furnish such third party non-public information concerning Gothic, and Gothic's business, properties and assets if, prior to furnishing such information to such third party, such third party executes a confidentiality agreement in reasonably customary form and on terms, including so called "standstill" provisions, satisfactory in form and substance to Parent and (y) the board of directors of Gothic may recommend such Alternative Proposal or withdraw, modify or not make its recommendation referred to in paragraph 3.18, if and only to the extent that Gothic's board of directors determines in good faith that: (1) based on the advice of Gothic's counsel, the failure to recommend such Alternative Proposal would constitute a breach of the board's fiduciary duties; and (2) based on the advice of Gothic's financial advisor, such Alternative Proposal, if consummated, would result in a transaction more favorable to Gothic's stockholders from a financial point of view than the transaction contemplated by this Agreement (a "Superior Proposal") and

the Person making such Superior Proposal has the financial means, or the ability to obtain the necessary financing, to conclude such transaction.

- 5.4.3 Will promptly notify Parent after receipt by Gothic or any of the Gothic Representatives of any Alternative Proposal, any inquiries indicating that any Person is considering making or wishes to make an Alternative Proposal or any requests for nonpublic information and the terms and conditions of any proposals or offers and the status of any actions, including any discussions, taken pursuant to such Alternative Proposal. Gothic agrees that it will keep Parent informed, on a current basis, of the status and terms of any such Alternative Proposal and of any discussions or negotiations regarding same.
- 5.4.4 Will cause each of the Irrevocable Proxies to be executed and delivered to Parent within ten (10) days after the execution of this Agreement, all in form and substance satisfactory to Parent and its legal counsel.

Nothing in this paragraph 5.4 will permit Gothic to terminate this Agreement or to change or withdraw its recommendation except as specifically provided in paragraph 7.1.

- 5.5 Gothic Stockholder Meeting. Gothic will take all action necessary in accordance with applicable law and its certificate of incorporation and bylaws to convene a meeting of its stockholders as promptly as practicable after the date hereof for the purpose of voting on this Agreement and the Merger. The board of directors of Gothic will recommend approval of this Agreement and the Merger (unless Gothic's board of directors determines in good faith based on the advice of Gothic's financial advisor that Gothic has received a Superior Proposal from a Person with the financial means or ability to obtain the necessary financing to conclude such transaction, subject, however, to the provisions of paragraph 7 hereof) and will take all lawful action to solicit such approval, including timely mailing the Proxy Statement/Prospectus to the stockholders of Gothic.
- 5.6 Parent Tax Determination. As a condition precedent to the mailing of the Proxy Statement/ Prospectus, Parent will have made a good faith determination to the effect that: (a) the Merger should be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code; (b) each of Parent and Sub should be a party to such reorganization within the meaning of Section 368(b) of the Code; and (c) no gain or loss should be recognized by Parent or Sub as a result of the Merger.
- 5.7 Registration Statement and Proxy Statement/Prospectus. With respect to the Registration Statement and the Proxy Statement/Prospectus, the parties agree that:
- 5.7.1 Parent and Gothic will cooperate and promptly prepare (i) a Preliminary Proxy Statement and (ii) the Registration Statement, and Gothic and Parent will file the Preliminary Proxy Statement and the Registration Statement with the SEC as soon as practicable after the date hereof. Parent will use its commercially reasonable efforts, and Gothic will cooperate with Parent (including furnishing all information concerning Gothic and the holders of Gothic Common Stock as may be reasonably requested by Parent), to have the Registration Statement declared effective under the Securities Act as promptly as practicable after such filing. Parent will use its best efforts, and Gothic will cooperate with Parent, to obtain all necessary state securities laws or "blue sky" permits, approvals and registrations in connection with the issuance of Parent Common Stock pursuant to the Merger.
- 5.7.2 Parent and Gothic will cause the Registration Statement (including the Proxy Statement/ Prospectus), at the time it becomes effective under the Securities Act, to comply as to form in all material respects with the applicable provisions of the Securities Act, the Exchange Act and the rules and regulations of the SEC thereunder.

- 5.7.3 Gothic hereby covenants and agrees with Parent that: (a) the Registration Statement (at the time it becomes effective under the Securities Act and at the Effective Time) will not contain an untrue statement of material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading (provided, however, that this clause (a) will apply only to information contained in the Registration Statement that was supplied by Gothic specifically for inclusion therein); and (b) the Proxy Statement/Prospectus (at the time it is first mailed to stockholders of Gothic, at the time of the Gothic Stockholder Meeting, and at the Effective Time) will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading (provided, however, that this clause (b) will only apply to any information contained in the Proxy Statement/ Prospectus that was supplied by Gothic specifically for inclusion therein). If, at any time prior to the Effective Time, any event with respect to Gothic, or with respect to other information supplied by Gothic specifically for inclusion in the Registration Statement, occurs and such event is required to be described in an amendment to the Registration Statement, Gothic will promptly notify Parent of such occurrence and will cooperate with Parent in the preparation and filing of such amendment. If, at any time prior to the Effective Time, any event with respect to Gothic, or with respect to other information included in the Proxy Statement/Prospectus, occurs and such event is required to be described in a supplement to the Proxy Statement/Prospectus, such event will be so described and such supplement will be promptly prepared, filed and disseminated.
- 5.7.4 Parent hereby covenants and agrees with Gothic that: (a) the Registration Statement (at the time it becomes effective under the Securities Act and at the Effective Time) will not contain an untrue statement of material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading (provided, however, that this clause (a) will apply only to information contained in the Registration Statement that was supplied by Parent specifically for inclusion therein); and (b) the Proxy Statement/Prospectus (at the time it is first mailed to stockholders of Gothic, at the time of the Gothic Stockholder Meeting, and at the Effective Time) will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading (provided, however, that this clause (b) will only apply to any information contained in the Proxy Statement/ Prospectus that was supplied by Parent specifically for inclusion therein). If, at any time prior to the Effective Time, any event with respect to Parent, or with respect to other information supplied by Parent specifically for inclusion in the Registration Statement, occurs and such event is required to be described in an amendment to the Registration Statement, Parent will promptly notify Gothic of such occurrence and will prepare and file such amendment. If, at any time prior to the Effective Time, any event with respect to Parent, or with respect to other information included in the Proxy Statement/ Prospectus, occurs and such event is required to be described in a supplement to the Proxy Statement/Prospectus, such event will be so described and such supplement will be promptly prepared, filed and disseminated.
- 5.7.5 Neither the Registration Statement nor the Proxy Statement/Prospectus nor any amendment or supplement thereto will be filed or disseminated to the stockholders of Gothic without the approval of both Parent and Gothic which approval will not be unreasonably withheld. Parent will advise Gothic, promptly after it receives notice thereof, of the time when the Registration Statement has become effective under the Securities Act, the issuance of any stop order with respect to the Registration Statement, the suspension of the qualification of the Parent Common Stock issuable in connection with



the Merger for offering or sale in any jurisdiction or any comments or requests for additional information by the SEC with respect to the Registration Statement.

- 5.8 Stock Exchange Listing. Parent will use its best efforts to list on the Exchange or such other exchange on which Parent Common Stock is then primarily traded, upon notice of issuance, the Parent Common Stock to be issued pursuant to the Merger.
- 5.9 Additional Arrangements. Subject to the terms and conditions herein provided, each of Gothic and Parent will take, or cause to be taken, all action and will do, or cause to be done, all things necessary, appropriate or desirable under applicable laws and regulations or under applicable governing agreements to consummate and make effective the transactions contemplated by this Agreement, including using its best efforts to obtain all necessary waivers, consents and approvals and effecting all necessary registrations and filings. Each of Gothic and Parent will take, or cause to be taken, all action or will do, or cause to be done, all things necessary, appropriate or desirable to cause the covenants and conditions applicable to the transactions contemplated hereby to be performed or satisfied as soon as practicable. In addition, if any Governmental Authority will have issued any order, decree, ruling or injunction, or taken any other action that would have the effect of restraining, enjoining or otherwise prohibiting or preventing the consummation of the transactions contemplated hereby, each of Gothic and Parent will use its reasonable efforts to have such order, decree, ruling or injunction or other action declared ineffective as soon as practicable.
- 5.10 Agreements of Affiliates. At least 30 days prior to the Effective Time, Gothic will cause to be prepared and delivered to Parent a list identifying all Persons who, at the time of the Gothic Stockholder Meeting, may be deemed to be "affiliates" of Gothic as that term is used in paragraphs (c) and (d) of Rule 145 under the Securities Act or are Major Gothic Stockholders. Upon written request by Parent, Gothic will use its best efforts to cause each Person who is identified as a Major Gothic Stockholder or an "affiliate" of Gothic in such list to execute and deliver to Parent, on or prior to the Closing Date, a written agreement, in the form attached hereto as Exhibit "5.10" (if such Person has not executed and delivered an agreement substantially to the same effect contemporaneously with the execution of this Agreement). Parent will be entitled to place legends as specified in such agreements on the Parent Certificates representing any Parent Common Stock to be issued in the Merger to affiliates of Gothic or Major Gothic Stockholders. Parent agrees to use its commercially reasonable efforts to publish, or cause to be published, within 180 days after the Closing a quarterly earnings report, an effective registration statement filed with the SEC, a report to the SEC on Form 10-K, 10-Q or 8-K, or any other public filing or announcement which includes the results of at least 30 days of combined operations of Parent and Gothic.
- 5.11 Public Announcements. Prior to Closing, Gothic will consult with Parent before issuing any press release or otherwise making any public statements with respect to the transactions contemplated by this Agreement and will not issue any press release or make any such public statement prior to obtaining the written approval of Parent; provided, however, that such approval will not be required where such release or announcement is required by applicable law; and provided further, that Gothic may respond to inquiries by the press or others regarding the transactions contemplated by this Agreement, so long as such responses are consistent with previously issued press releases.
- 5.12 Notification of Certain Matters. Gothic will give prompt notice to Parent of: (a) any representation or warranty of Gothic contained in this Agreement being untrue or inaccurate when made; (b) the occurrence of any event or development that would cause (or could reasonably be expected to cause) any representation or warranty of Gothic contained in this Agreement to be untrue or inaccurate on the Closing Date; or (c) any failure of Gothic to comply with or satisfy any covenant, condition, or agreement to be complied with or satisfied by it hereunder. Parent will give prompt notice to Gothic of: (i) any representation or warranty of

Parent contained in this Agreement being untrue or inaccurate when made; (ii) the occurrence of any event or development that would cause (or could reasonably be expected to cause) any representation or warranty of Parent contained in this Agreement to be untrue or inaccurate on the Closing Date; or (iii) any failure of Parent to comply with or satisfy any covenant, condition, or agreement to be complied with or satisfied by it hereunder.

5.13 Indemnification. From and after the Effective Time, Parent agrees that:

5.13.1 Parent will indemnify and hold harmless each present and former director and/or officer of Gothic, determined as of the Effective Time (the "Indemnified Parties"), that is made a party or threatened to be made a party to any threatened, pending or completed, action, suit, proceeding or claim, whether civil, criminal, administrative or investigative, by reason of the fact that he or she was a director or officer of the Gothic Companies prior to the Effective Time and arising out of actions or omissions of the Indemnified Party in any such capacity occurring at or prior to such Effective Time (a "Claim") against any costs or expenses (including reasonable attorneys' fees), judgments, fines, losses, claims, damages or liabilities reasonably incurred in connection with any Claim, whether asserted or claimed prior to, at or after the Effective Time, to the fullest extent that Gothic would have been permitted under Oklahoma law, the certificate of incorporation or bylaws of Gothic or written indemnification agreements in effect at the date hereof, including provisions therein relating to the advancement of expenses incurred in the defense of any action or suit.

5.13.2 Any Indemnified Party wishing to claim indemnification under paragraph 5.13.1, upon learning of any such Claim, will promptly notify Parent thereof, but the failure to so notify Parent will not relieve Parent of any liability it may have to such Indemnified Party if such failure does not materially prejudice Parent. In the event of any such Claim (whether arising before or after the Effective Time): (a) Parent will have the right to assume the defense thereof and Parent will not be liable to such Indemnified Party for any legal expenses of other counsel or any other expenses subsequently incurred by such Indemnified Party in connection with the defense thereof, except that if Parent elects not to assume such defense, the Indemnified Party may retain counsel reasonably satisfactory to Parent, and Parent will pay reasonable fees and expenses of such counsel for the Indemnified Party; provided, however, that Parent will be obligated pursuant to this paragraph 5.13.2 to pay for only one firm or counsel for all Indemnified Parties unless the use of one counsel for such Indemnified Parties would present such counsel with a conflict of interest; (b) such Indemnified Parties will cooperate in the defense of any such matter; and (c) Parent will not be liable for any settlement effected without its prior written consent, which consent will not be unreasonably withheld; and provided, further, however, that Parent will not have any obligation hereunder to any Indemnified Party when and if a court of competent jurisdiction will ultimately determine, and such determination will have become final and non-appealable, that the indemnification of such Indemnified Party in the manner contemplated hereby is prohibited by applicable law. If such indemnity is not available with respect to any Indemnified Party, then Parent and the Indemnified Party will contribute to the amount payable in such proportion as is appropriate to reflect relative faults and benefits, with any allocation of respective "fault" otherwise allocable to Gothic being allocated to Parent.

5.14 Employee and Severance Matters. Attached as Section 5.14 of the Gothic Disclosure Schedule is: (a) a current list of each of the Gothic Companies' employees (the "Gothic Employees"); (b) a copy of Gothic's severance policy (the "Gothic Severance Policy"); (c) a severance package table which lists the cost of all severance pay to be paid to each of the Gothic Employees; (d) a list of Gothic Employees with written employment agreements (the "Contract Employees"); and (e) a list of all contract pumpers and other independent contractors (the "Independent Contractors") and a summary of the terms of such arrangements including,

without limitation, any severance package. On or immediately prior to the Closing Date, Gothic will pay the severance pay as indicated on the severance package table to the Gothic Employees. Notwithstanding the immediately preceding sentence, Gothic will not pay such severance pay to: (i) any Gothic Employee who is not a Contract Employee and to whom Parent or Sub offers a substantially comparable job (as determined by Parent in its reasonable discretion) with equal or better base salary at such employee's current location; (ii) any Contract Employee who chooses not to terminate his employment agreement with Gothic on the Closing Date; (iii) any Independent Contractor who is covered by the Gothic Severance Policy and chooses not to terminate his contract with Gothic on the Closing Date; (iv) Michael Paulk or Steve Ensz except in accordance with their respective employment agreements and the termination agreements attached hereto as part of Section 5.14 of the Gothic Disclosure Schedule; or (v) any Gothic Employee who does not execute a severance agreement in substantially the form required by the severance policy. With respect to any Gothic Employee who is not paid severance pay on or immediately prior to the Effective Date, all the terms and provisions of the Gothic Severance Policy and the Contract Employees' employment agreements will continue in full force and effect.

- 5.15 Restructuring of Merger. Upon the mutual agreement of Parent and Gothic so long as no breach of any of the representations and warranties set forth herein has occurred, the Merger may be restructured in the form of a forward subsidiary merger of Gothic into Sub, with Sub being the Surviving Corporation, or as a merger of Gothic into Parent, with Parent being the Surviving Corporation. In addition, (so long as no breach of any of the representations and warranties of the Parent set forth herein has occurred, such restructure will not adversely affect the tax consequences of the Merger and such restructure will not cause a violation of paragraph 6.2.6 that is not waived by the Parent), at the election of the Parent, the Merger may be restructured in the form of a share acquisition under Section 1090.1 of the OGCA. In such event, this Agreement will be deemed appropriately modified to reflect such form of merger. Regardless of the form of the Merger, Gothic, Parent and Sub acknowledge and agree that the effect of the Merger is that Gothic is being acquired by Parent.
- 5.16 Payment of Expenses. Except as set forth in this paragraph 5.16, all expenses incurred in connection with this Agreement will be paid by the party incurring such expenses, whether or not the Merger is consummated, except that Parent and Gothic each will pay one-half of all Expenses (as defined below) relating to printing, filing and mailing the Registration Statement and the Proxy Statement/Prospectus and all SEC and other regulatory filing fees incurred in connection with the Registration Statement and the Proxy Statement/Prospectus. "Expenses" as used in this Agreement will include all reasonable out-of-pocket expenses (including, without limitation, all fees and expenses of counsel, accountants, experts and consultants to a party hereto and its affiliates) incurred by a party or on its behalf in connection with or related to the authorization, preparation, negotiation, execution and performance of this Agreement, the preparation, printing, filing and mailing of the Registration Statement and the Proxy Statement/ Prospectus, the solicitation of stockholder approvals and all other matters related to the closing of the Merger.
- 5.17 Gothic Termination Fee. Parent and Gothic agree that: (a) if Gothic terminates this Agreement pursuant to paragraph 7.1.4(a); or (b) if Parent terminates this Agreement pursuant to paragraph 7.1.5; or (c) if (i) Gothic or Parent terminates this Agreement pursuant to paragraph 7.1.2 due to the failure of Gothic's stockholders to approve and adopt this Agreement, the Merger and the transactions contemplated hereby, and (ii) at the time of such failure to so approve and adopt this Agreement, the Merger and the transactions contemplated hereby, there exists an Alternative Proposal with respect to Gothic and, prior to or within seven (7) months of the termination of this Agreement, Gothic enters into a definitive agreement with any third party with respect to such Alternative Proposal with respect to Gothic; then Gothic will pay to Parent an amount equal to \$10,000,000 (the "Gothic Termination Fee"). The Gothic Termination Fee

will be paid prior to, and will be a pre-condition to effectiveness of termination of this Agreement pursuant to paragraph 7.1.4 and 7.1.5 and the Gothic Termination Fee will be paid to Parent on the next business day after a definitive agreement is entered into with a third party with respect to an Alternative Proposal if this Agreement is terminated pursuant to paragraph 7.1.2. Any payment of a Gothic Termination Fee required to be made pursuant to this paragraph 5.17 will be made not later than two (2) business days after termination of this Agreement. All payments under this paragraph 5.17 will be made by wire transfer of immediately available funds to an account designated by Parent.

5.18 Dissenting Stockholder Payments. Any and all payments made to settle appraisal rights of Dissenting Stockholders or made pursuant to the OGCA will be made solely out of Gothic assets and neither Parent nor Sub will have any liability therefor.

6. CONDITIONS PRECEDENT. The obligations of the parties under this Agreement will be subject to the following conditions precedent:

6.1 Conditions to Each Party's Obligation to Effect the Merger. The respective obligations of each party to effect the Merger will be subject to the satisfaction, at or prior to the Closing Date, of the following conditions:

6.1.1 Stockholder Approval. This Agreement and the Merger will have been duly and validly approved and adopted by a majority of the outstanding Gothic Common Stock and Gothic Preferred Stock voting as one class.

6.1.2 Other Approvals. If applicable, the waiting period applicable to the consummation of the Merger under the HSR Act will have expired or been terminated and all filings required to be made prior to the Effective Time with, and all consents, approvals, permits and authorizations required to be obtained prior to the Effective Time from, any Governmental Authority in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby by Gothic, Parent and Sub will have been made or obtained (as the case may be), except where the failure to obtain such consents, approvals, permits and authorizations would not be reasonably likely to result in a Material Adverse Effect on Parent (assuming the Merger has taken place) or to materially and adversely affect the consummation of the Merger.

6.1.3 Securities Law Matters. The Registration Statement will have become effective under the Securities Act and will be effective at the Effective Time, and no stop order suspending such effectiveness will have been issued, no action, suit, proceeding or investigation by the SEC to suspend such effectiveness will have been initiated and be continuing, and all necessary approvals under state securities laws relating to the issuance or trading of the Parent Common Stock to be issued in the Merger will have been received.

6.1.4 No Injunctions or Restraints. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Merger will be in effect; provided, however, that prior to invoking this condition, each party will have complied fully with its obligations under paragraph 5.9 and, in addition, will use all reasonable efforts to have any such decree, ruling, injunction or order vacated, except as otherwise contemplated by this Agreement.

6.1.5 Financing Conditions. All of the terms and conditions set forth in the financing commitment dated September 8, 2000, among Bear Stearns & Co., Inc. and the Parent relating to the Merger will have been satisfied, such financing commitment will be in full force and effect as to each of the lenders which is a party thereto and all of the funding required to consummate the transactions contemplated hereby (including the payment of any obligations of the Gothic Companies as a result of this transaction together with any

transaction costs) and covered by such financing commitment will be available to be disbursed to Parent in accordance with the terms of such financing commitment.

- 6.1.6 Bond Indenture Compliance. Prior to the Closing Date, the Gothic Companies will deliver or cause to be delivered to the trustee under the Senior Secured GPC Notes indenture the Officers' Certificate in the form set forth in Section 6.1.6 of the Gothic Disclosure Schedule together with all opinions and other required documentation and will have provided executed copies thereof to the Parent along with the calculations upon which such Officers' Certificate is based and all such items will be true and correct in all respects.
- 6.2 Conditions to Obligations of Parent and Sub. The obligations of Parent and Sub to effect the Merger are subject to the satisfaction of the following conditions, any or all of which may be waived in whole or in part by Parent and Sub:
- 6.2.1 Representations and Warranties. The representations and warranties of Gothic set forth in this Agreement and the Gothic Disclosure Schedule will be true and correct as of the Closing Date as though made on and as of that time, and Parent will have received a certificate signed by the chief executive officer of Gothic to such effect; provided, however, that the condition set forth in this paragraph 6.2.1 will be deemed to be satisfied even if one or more of such representations and warranties are not true and correct, so long as the failure of such representations and warranties to be true and correct (in the aggregate) does not result in a Material Adverse Effect on any of the Gothic Companies.
- 6.2.2 Performance of Covenants and Agreements by Gothic. Gothic will have performed in all material respects all covenants and agreements required to be performed by it under this Agreement at or prior to the Closing Date, and Parent will have received a certificate signed by the chief executive officer of Gothic to such effect.
- 6.2.3 Letters from Gothic Affiliates. Parent will have received from each Person named in the list referred to in paragraph 5.10 an executed copy of the agreement described in paragraph 5.10.
- 6.2.4 Tax Determination. The determination described in paragraph 5.6 will not have been withdrawn, revoked or modified.
- 6.2.5 No Adverse Change. From the date of this Agreement through the Closing, there will not have occurred any change in the condition (financial or otherwise), operations or business of any of the Gothic Companies that would have or would be reasonably likely to have a Material Adverse Effect on any of the Gothic Companies (other than changes in commodity prices, changes generally affecting the oil and gas industry, changes resulting from exploration or development results reported in the ordinary course of business and changes arising from the announcement of the Merger).
- 6.2.6 Dissenting Stockholders. Holders of more than five percent (5%) of the outstanding shares of Gothic Common Stock will not have exercised, nor will they have any continued right to exercise, appraisal, dissenters' or similar rights under applicable law with respect to their shares by virtue of the Merger.
- 6.2.7 Resignations. Each of the officers and directors of each Gothic Company will have resigned.
- 6.2.8 Releases. Each officer and director of the Gothic Companies will have executed and delivered a Release in substantially the form attached hereto as Exhibit "6.2.8."
- 6.2.9 Opinion of Counsel. Parent will have received from: (a) Pray, Walker, Jackman, Williamson & Marljar, counsel to Gothic, an opinion in form and substance as set forth in Exhibit "6.2.9(a)" attached hereto addressed to Parent and dated as of the Closing Date,

and (b) William Clarke, counsel to Gothic, an opinion in form and substance as set forth in Exhibit "6.2.9(b)" attached hereto addressed to Parent and dated as of the Closing Date.

6.2.10 Loans and Pledges. As of the Closing Date, the pledge agreements referred to in paragraph 3.40 hereof covering all of the Pledged Stock will remain in full force and effect and the officer and employee letters directing payment of the loans to officers and employees to be made out of severance payments will remain in full force and effect with respect to no less than eighty percent (80%) of the aggregate unpaid balances of all such officer and employee loans.

6.3 Conditions to Obligation of Gothic. The obligation of Gothic to effect the Merger is subject to the satisfaction of the following conditions, any or all of which may be waived in whole or in part by Gothic:

6.3.1 Representations and Warranties. The representations and warranties of Parent and Sub set forth in paragraph 4 will be true and correct as of the Closing Date as though made on and as of that time, and Gothic will have received a certificate signed by the chief executive officer or the chief financial officer of Parent to such effect; provided, however, that the condition set forth in this paragraph 6.3.1 will be deemed to be satisfied even if one or more of such representations and warranties are not true and correct, so long as the failure of such representations and warranties to be true and correct (in the aggregate) does not result in a Material Adverse Effect on Parent and/or Sub.

6.3.2 Performance of Covenants and Agreements by Parent and Sub. Parent and Sub will have performed in all material respects all covenants and agreements required to be performed by them under this Agreement at or prior to the Closing Date, and Gothic will have received a certificate signed by the chief executive officer or the chief financial officer of Parent to such effect.

6.3.3 Listing. The shares of Parent Common Stock issuable pursuant to the Merger will have been authorized for listing on the Exchange or such other exchange on which the Parent Common Stock is traded, subject to official notice of issuance.

6.3.4 No Adverse Change. From the date of this Agreement through the Closing, there will not have occurred any change in the condition (financial or otherwise), operations or business of the Parent Companies taken as a whole that would have or would be reasonably likely to have a Material Adverse Effect on the Parent Companies (other than changes in commodity prices, changes generally affecting the oil and gas industry, changes resulting from exploration and development results reported in the ordinary course of business and changes arising from the announcement of the Merger).

6.3.5 Opinion of Counsel. Gothic will have received from Self, Giddens & Lees, Inc., counsel to Parent, an opinion in form and substance as set forth in Exhibit "6.3.5" attached hereto addressed to Gothic, and dated as of the Closing Date.

7. TERMINATION. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, whether before or after approval of this Agreement and the Merger by the stockholders of Gothic on the following terms.

7.1 Termination Rights. Any termination of this Agreement will be by:

7.1.1 Mutual Consent. By mutual written consent of Parent and Gothic;

7.1.2 Date Certain. By either Gothic or Parent if: (a) the Merger has not been consummated by June 30, 2001 (provided, however, that the right to terminate this Agreement pursuant to this clause (a) will not be available to any party whose breach of any representation or warranty or failure to perform any covenant or agreement under this Agreement has been

the cause of or resulted in the failure of the Merger to occur on or before such date); (b) any Governmental Authority has issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the Merger and such order, decree, ruling or other action has become final and nonappealable (provided, however, that the right to terminate this Agreement pursuant to this clause (b) will not be available to any party until such party has used all reasonable efforts to remove such injunction, order or decree); or (c) this Agreement and the Merger have not been approved by the holders of a majority of the outstanding Gothic Common Stock and Gothic Preferred Stock voting as one class at the Gothic Stockholder Meeting or at any adjournment thereof;

- 7.1.3 By Parent. By Parent if: (a) there has been a breach of any of the representations and warranties made by Gothic in this Agreement or the Gothic Disclosure Schedule the aggregate of which would have a Material Adverse Effect on Gothic (provided, however, that Parent will not be entitled to terminate this Agreement pursuant to this clause (a) unless Parent has given Gothic prior written notice of such breach and Gothic has failed to cure such breach within fifteen (15) days after such written notice, and the condition described in paragraph 6.2.1, other than the provision thereof relating to the certificate signed by the chief executive officer of Gothic, would not be satisfied if the Closing were to occur on the day on which Parent gives Gothic notice of such termination); or (b) Gothic has failed to comply in any material respect with any of its covenants or agreements contained in this Agreement and such failure has not been, or cannot be, cured within ten (10) days after notice and demand for cure thereof;
- 7.1.4 By Gothic. By Gothic if: (a) as a result of a Superior Proposal received by Gothic from a Person other than a party to this Agreement or any of its Affiliates, Gothic's board of directors determines in good faith based on the advice of legal counsel that their fiduciary obligations under applicable law require that such Superior Proposal be accepted; provided, however, that prior to the effective date of any such termination, Gothic will provide Parent with an opportunity (of not less than three (3) full business days) to make such adjustments in the terms and conditions of this Agreement or the Merger as would enable Gothic to proceed with the transactions contemplated hereby; provided, further, that it will be a condition to the effectiveness of termination by Gothic pursuant to this paragraph 7.1.4, that Gothic will have paid the Gothic Termination Fee to Parent required by paragraph 5.17; or (b) there has been a breach of the representations and warranties made by Parent in paragraph 4 of this Agreement the aggregate of which would have a Material Adverse Effect on Parent (provided, however, that Gothic will not be entitled to terminate this Agreement pursuant to this clause (b) unless Gothic has given Parent at least fifteen (15) days prior written notice of such breach and Parent has failed to cure such breach within such 15-day period, and the condition described in Section 6.3.1, other than the provision thereof relating to the certificate signed by the chief executive officer or chief financial officer of Parent, would not be satisfied if the Closing were to occur on the day on which Gothic gives Parent notice of such termination); or (c) Parent has failed to comply in any material respect with any of its covenants or agreements contained in this Agreement and such failure has not been, or cannot be, cured within a reasonable time after notice and demand for cure thereof; or
- 7.1.5 Superior Proposal. By Parent if the board of directors of Gothic: (a) accepts a Superior Proposal in accordance with paragraph 5.4.2; or (b) withdraws or modifies in a manner adverse to Parent, its approval or recommendation of this Agreement or the Merger, or, on request by Parent, fails to reaffirm such approval or recommendation.
- 7.2 Effect of Termination. If this Agreement is terminated by either Gothic or Parent pursuant to the provisions of paragraph 7.1, this Agreement will forthwith become void and there will be no further obligation on the part of any party hereto or its respective Affiliates, directors, officers or

stockholders except pursuant to, the provisions of this paragraph 7.2 and paragraphs 5.7.3, 5.7.4 and 5.17 (which will continue pursuant to their terms). The termination of this Agreement will not relieve any party hereto from any liability for damages incurred as a result of a breach by such party of its representations, warranties, covenants, agreements or other obligations hereunder occurring prior to such termination, provided, however, that for any termination hereof as a result of any of the matters outlined in: (a) subparts (b) or (c) of paragraph 7.1.4, the Parent Companies' aggregate liability will not exceed \$1,000,000.00; and (b) paragraph 7.1.3, the Gothic Companies' aggregate liability will not exceed \$1,000,000.00.

8. MISCELLANEOUS. It is further agreed as follows:

- 8.1 Nonsurvival of Representations, Warranties, Covenants and Agreements. None of the representations, warranties, covenants or agreements contained in this Agreement or in any instrument delivered pursuant to this Agreement, and no agreements or obligations arising under the Confidentiality Agreement, will survive the consummation of the Merger, except for the agreements contained in paragraphs 2, 5.13, 5.14, 5.17, 7 and in this paragraph 8 and the agreements delivered pursuant to paragraph 5.10.
- 8.2 Amendment. This Agreement may be amended by the parties hereto at any time before or after approval of the Merger and this Agreement by the stockholders of Gothic; provided, however, that after any such approval, no amendment will be made that by law requires further approval by such stockholders without such further approval. This Agreement may not be amended except by a written instrument signed on behalf of each of the parties hereto.
- 8.3 Notices. Any notice or other communication required or permitted hereunder will be in writing and either delivered personally, by facsimile transmission or by registered or certified mail (postage prepaid and return receipt requested) and will be deemed given when received (or, if mailed, five (5) business days after the date of mailing) at the following addresses or facsimile transmission numbers (or at such other address or facsimile transmission number for a party as will be specified by like notice):

To Parent or Sub: Chesapeake Energy Corporation  
6100 North Western Avenue  
Oklahoma City, Oklahoma 73118  
Attention: Aubrey K. McClendon  
Telephone: 405-848-8000  
Facsimile: 405-848-8588

With a copy to: Self, Giddens & Lees, Inc.  
2725 Oklahoma Tower  
210 Park Avenue  
Oklahoma City, Oklahoma 73102  
Attention: C. Ray Lees  
Telephone: 405-232-3001  
Facsimile: 405-232-5553

To Gothic: Gothic Energy Corporation  
6120 South Yale Avenue, Suite 1200  
Tulsa, Oklahoma 74136  
Attn: Michael K. Paulk  
Telephone (918) 749-5666  
Fax No. (918) 477-8045



With a copy to: Pray, Walker, Jackman, Williamson & Marlar  
 900 OneOk Plaza  
 100 West 5th Street  
 Tulsa, Oklahoma 74103-4218  
 Attn: Ira L. Edwards, Jr.  
 Telephone (918) 581-5500  
 Fax No. (918) 581-5599

and

William Clarke  
 457 North Harrison Street, Suite 103  
 Princeton, New Jersey 08540  
 Telephone: (609) 921-3663  
 Facsimile: (609) 921-3933

- 8.4 Counterparts. This Agreement may be executed in two or more counterparts, all of which will be considered one and the same agreement and will become effective when two or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.
- 8.5 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, such provision will be interpreted to be only so broad as is enforceable.
- 8.6 Entire Agreement; No Third Party Beneficiaries. This Agreement (together with the documents and instruments delivered by the parties in connection with this Agreement): (a) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof; and (b) except as provided in paragraph 2 or paragraphs 5.13 or 5.14, is solely for the benefit of the parties hereto and their respective successors, legal representatives and assigns and does not confer on any other Person any rights or remedies hereunder.
- 8.7 Applicable Law. This Agreement will be governed in all respects, including validity, interpretation and effect, by the laws of the State of Oklahoma regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.
- 8.8 No Remedy in Certain Circumstances. Each party agrees that, should any court or other competent authority hold any provision of this Agreement or part hereof to be null, void or unenforceable, or order any party to take any action inconsistent herewith or not to take an action consistent herewith or required hereby, the validity, legality and enforceability of the remaining provisions and obligations contained or set forth herein will not in any way be affected or impaired thereby, unless the foregoing inconsistent action or the failure to take an action constitutes a material breach of this Agreement or makes this Agreement impossible to perform, in which case this Agreement will terminate pursuant to paragraph 7 hereof. Except as otherwise contemplated by this Agreement, to the extent that a party hereto took an action inconsistent herewith or failed to take action consistent herewith or required hereby pursuant to an order or judgment of a court or other competent Governmental Authority, such party will not incur any liability or obligation unless such party breached its obligation under paragraph 5.9 or did not in good faith seek to resist or object to the imposition or entering of such order or judgment.
- 8.9 Enforcement of Agreement. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with the terms hereof or were otherwise breached. Accordingly, the parties hereto hereby agree that each

party hereto will be entitled to specific performance of the terms and provisions hereof in addition to any other remedy at law or in equity.

- 8.10 Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder will be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties, except that Sub may assign, in its sole discretion, any or all of its rights, interests and obligations hereunder to any newly formed direct or indirect wholly-owned subsidiary of Parent. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.
- 8.11 Waivers. At any time prior to the Effective Time, the parties hereto may, to the extent legally allowed: (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto; (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto; and (c) waive performance of any of the covenants or agreements, or satisfaction of any of the conditions, contained herein. Any agreement on the part of a party hereto to any such extension or waiver will be valid only if set forth in a written instrument signed on behalf of such party. Except as provided in this Agreement, no action taken pursuant to this Agreement, including any investigation by or on behalf of any party, will be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants or agreements contained in this Agreement. The waiver by any party hereto of a breach of any provision hereof will not operate or be construed as a waiver of any prior or subsequent breach of the same or any other provisions hereof.
- 8.12 References and Titles. All references in this Agreement to Exhibits, Schedules, Sections, paragraphs, subsections and other subdivisions refer to the corresponding Exhibits, Schedules, Sections, paragraphs, subsections and other subdivisions of or to this Agreement and/or the schedules attached hereto unless expressly provided otherwise. Except for the defined terms in paragraph 1, titles appearing at the beginning of any Sections, paragraphs, subsections or other subdivisions of this Agreement are for convenience only, do not constitute any part of this Agreement, and will be disregarded in construing the language hereof.
- 8.13 Incorporation. Exhibits and Schedules referred to herein are attached to and by this reference incorporated herein for all purposes.

SIGNATURE PAGE  
(AGREEMENT AND PLAN OF MERGER)

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first above written.

GOTHIC ENERGY CORPORATION,  
an Oklahoma corporation

By: /s/ MICHAEL PAULK

-----  
Michael Paulk, President

("Gothic")

SIGNATURE PAGE  
(AGREEMENT AND PLAN OF MERGER)

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first above written.

CHESAPEAKE ENERGY CORPORATION,  
an Oklahoma corporation

By: /s/ MARCUS C. ROWLAND

-----  
Marcus C. Rowland,  
Executive Vice President

("Parent")

CHESAPEAKE MERGER 2000 CORP.,  
an Oklahoma corporation

By: /s/ MARCUS C. ROWLAND

-----  
Marcus C. Rowland,  
Vice President

("Sub")

## ANNEX B

## OPINION OF GOTHIC'S FINANCIAL ADVISOR

September 8, 2000

## Personal and Confidential

The Board of Directors  
Gothic Energy Corporation  
Two Warren Place  
6120 South Yale Avenue, Suite 1200  
Tulsa, OK 74136

Gentlemen:

You have asked CIBC World Markets Corp. ("CIBC World Markets") to render a written opinion ("Fairness Opinion") to the Board of Directors as to the fairness to the shareholders of Gothic Energy Corporation ("Gothic" or the "Company"), excluding those shares owned by Chesapeake Energy Corporation ("Chesapeake"), from a financial point of view, of the Exchange Ratio (as hereinafter defined) pursuant to the Agreement and Plan of Merger dated as of September 8, 2000 by and among Chesapeake, Chesapeake Merger 2000 Corp. (a wholly owned subsidiary of Chesapeake) and Gothic (the "Agreement"). The Agreement provides for, among other things, a transaction whereby Chesapeake Merger 2000 Corp. will be merged with and into Gothic (the "Merger"). The Agreement provides for the exchange of Gothic common stock for Chesapeake common stock on a basis of a ratio (the "Exchange Ratio") equal to the quotient obtained by dividing the Merger Consideration (as defined in the Agreement) by the Gothic Aggregate Number (as defined in the Agreement) as of the date of the computation.

In arriving at our Fairness Opinion we:

- (a) reviewed the Agreement;
- (b) reviewed Chesapeake's audited financial statements for the fiscal years ended December 31, 1998 and 1999 and the unaudited financial statements for the six months ended June 30, 2000;
- (c) held discussions with senior management of Chesapeake with respect to the business and prospects for future growth of Chesapeake;
- (d) reviewed the historical market prices and trading volume of both Chesapeake and Gothic common stock;
- (e) reviewed Gothic's audited financial statements for the fiscal years ended December 31, 1998 and 1999 and the unaudited financial statements for the six months ended June 30, 2000;
- (f) reviewed financial projections of Gothic prepared by Gothic and its management;
- (g) held discussions with senior management of Gothic with respect to the business and prospects for future growth of Gothic;
- (h) reviewed and analyzed certain publicly available financial data for certain companies we deemed comparable to Gothic;
- (i) performed discounted cash flow analyses of Gothic using certain assumptions of future performance provided to us by the management of Gothic;
- (j) reviewed and analyzed certain publicly available financial information for transactions that we deemed comparable to the Merger;
- (k) reviewed public information concerning Gothic; and
- (l) performed such other analyses and reviewed such other information as we deemed appropriate.

In rendering our Fairness Opinion we relied upon and assumed, without independent verification or investigation, the accuracy and completeness of all of the financial and other information that was publicly available or provided to us by Gothic and its respective employees, representatives and affiliates. With respect to forecasts of future financial condition and operating results of Gothic provided to us, we assumed at the direction of Gothic's management, without independent verification or investigation, that such forecasts were reasonably prepared on bases reflecting the best available information, estimates and judgement of Gothic's management. We have neither made nor obtained any independent evaluations or appraisals of the assets or the liabilities of Gothic or affiliated entities. We are not expressing any opinion as to the underlying valuation, future performance or long term viability of Gothic following the Merger, or the price at which Chesapeake's common stock will trade subsequent to the Merger. We have not been asked to consider, and our opinion does not address, the relative merits of the Merger as compared to any alternative business strategies that might exist for Gothic or the effect of any other transaction in which Gothic might engage. Our opinion is necessarily based on the information available to us and general economic, financial and stock market conditions and circumstances as they exist and can be evaluated by us on the date hereof. It should be understood that, although subsequent developments may affect this opinion, we do not have any obligation to update, revise or reaffirm the opinion.

As part of our investment banking business, we are regularly engaged in valuations of businesses and securities in connection with acquisitions and mergers, underwritings, secondary distributions of securities, private placements and valuations for other purposes.

We acted as financial advisor to Gothic in connection with the Merger and to the Board of Directors of Gothic in rendering this opinion and will receive a fee for our services. CIBC World Markets has performed investment banking and other services for Gothic in the past and has been compensated for such services. In the ordinary course of its business, CIBC World Markets and its affiliates may actively trade securities of Gothic for their own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

Based upon and subject to the foregoing, and such other factors as we deem relevant, it is our opinion that, as of the date hereof, the Exchange Ratio pursuant to the Agreement is fair to the shareholders of Gothic, excluding those shares owned by Chesapeake, from a financial point of view. This Fairness Opinion is for the exclusive use of the Board of Directors of Gothic. Neither this Fairness Opinion nor the services provided by CIBC World Markets in connection herewith may be publicly disclosed or referred to in any manner by Gothic without the prior written approval by CIBC World Markets. CIBC World Markets consents to the inclusion of this opinion in its entirety and any reference to this opinion in any prospectus, proxy statement or solicitation/recommendation statement, as the case may be, required to be distributed to the Company's shareholders in connection with the Merger.

Very truly yours,

CIBC World Markets Corp.

## ANNEX C

## OKLAHOMA STATUTORY APPRAISAL RIGHTS PROCESS

Chapter 22  
 Oklahoma General Corporation Act  
 sec. 1091. Appraisal Rights

- A. Any shareholder of a corporation of this state who holds shares of stock on the date of the making of a demand pursuant to the provisions of subsection D of this section with respect to the shares, who continuously holds the shares through the effective date of the merger or consolidation, who has otherwise complied with the provisions of subsection D of this section and who has neither voted in favor of the merger or consolidation nor consented thereto in writing pursuant to the provisions of Section 1073 of this title shall be entitled to an appraisal by the district court of the fair value of the shares of stock under the circumstances described in subsections B and C of this section. As used in this section, the word "shareholder" means a holder of record of stock in a stock corporation and also a member of record of a nonstock corporation; the words "stock" and "share" mean and include what is ordinarily meant by those words and also membership or membership interest of a member of a nonstock corporation; and "depository receipt" means an instrument issued by a depository representing an interest in one or more shares, or fractions thereof, solely of stock of a corporation, which stock is deposited with the depository. The provisions of this subsection shall be effective only with respect to mergers or consolidations consummated pursuant to an agreement of merger or consolidation entered into after November 1, 1988.
- B.1. Except as otherwise provided for in this subsection, appraisal rights shall be available for the shares of any class or series of stock of a constituent corporation in a merger or consolidation, or of the acquired corporation in a share acquisition, to be effected pursuant to the provisions of Section 1081 other than a merger effected pursuant to subsection G of Section 1081, and Sections 1082, 1086, 1087, 1090.1 or 1090.2 of this title.
- 2.a. No appraisal rights under this section shall be available for the shares of any class or series of stock which stock, or depository receipts in respect thereof, at the record date fixed to determine the shareholders entitled to receive notice of and to vote at the meeting of shareholders to act upon the agreement of merger or consolidation, were either:
- (1) listed on a national securities exchange or designated as a national market system security or an interdealer quotation system by the National Association of Securities Dealers, Inc.; or
  - (2) held of record by more than two thousand holders.
- No appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the shareholders of the surviving corporation as provided in subsection G of Section 1081 of this title.
- b. In addition, no appraisal rights shall be available for any shares of stock, or depository receipts in respect thereof, of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the shareholders of the surviving corporation as provided for in subsection F of Section 1081 of this title.
3. Notwithstanding the provisions of paragraph 2 of this subsection, appraisal rights provided for in this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to the provisions of Sections 1081, 1082, 1086, 1087, 1090.1 or 1090.2 of this title to accept for the stock anything except:
- a. shares of stock of the corporation surviving or resulting from such merger or consolidation or depository receipts thereof, or

- b. shares of stock of any other corporation, or depository receipts in respect thereof, which shares of stock or depository receipts at the effective date of the merger or consolidation will be either listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Security Dealers, Inc. or held of record by more than two thousand holders, or
  - c. cash in lieu of fractional shares or fractional depository receipts described in subparagraphs a and b of this paragraph, or
  - d. any combination of the shares of stock, depository receipts, and cash in lieu of the fractional shares or depository receipts described in subparagraphs a, b and c of this paragraph.
4. In the event all of the stock of a subsidiary Oklahoma corporation party to a merger effected pursuant to the provisions of Section 1083 of this title is not owned by the parent corporation immediately prior to the merger, appraisal rights shall be available for the shares of the subsidiary Oklahoma corporation.
- C. Any corporation may provide in its certificate of incorporation that appraisal rights under this section shall be available for the shares of any class or series of its stock as a result of an amendment to its certificate of incorporation, any merger or consolidation in which the corporation is a constituent corporation or the sale of all or substantially all of the assets of the corporation. If the certificate of incorporation contains such a provision, the procedures of this section, including those set forth in subsections D and E of this section, shall apply as nearly as is practicable.
- D. Appraisal rights shall be perfected as follows:
- 1. If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of shareholders, the corporation, not less than twenty (20) days prior to the meeting, shall notify each of its shareholders entitled to the appraisal rights that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in the notice a copy of this section. Each shareholder electing to demand the appraisal of the shares of the shareholder shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of the shares of the shareholder. The demand will be sufficient if it reasonably informs the corporation of the identity of the shareholder and that the shareholder intends thereby to demand the appraisal of the shares of the shareholder. A proxy or vote against the merger or consolidation shall not constitute such a demand. A shareholder electing to take such action must do so by a separate written demand as herein provided. Within ten (10) days after the effective date of the merger or consolidation, the surviving or resulting corporation shall notify each shareholder of each constituent corporation who has complied with the provisions of this subsection and has not voted in favor of or consented to the merger or consolidation as of the date that the merger or consolidation has become effective; or
  - 2. If the merger or consolidation is approved pursuant to the provisions of Section 1073 or 1083 of this title, each constituent corporation, either before the effective date of the merger or consolidation or within ten (10) days thereafter, shall notify each of the holders of any class or series of stock of such constituent corporation who are entitled to appraisal rights of the approval of the merger or consolidation and that appraisal rights are available for any or all of the shares of the class or series of stock of the constituent corporation, and shall include in such notice a copy of this section; provided if the notice is given on or after the effective date of the merger or consolidation, the notice shall be given by the surviving or resulting corporation to all the holders of any class or series of stock of a constituent corporation that are entitled to appraisal rights. The notice may, and, if given on or after the effective date of the merger or consolidation, shall also notify the shareholders of the effective date of the merger or consolidation. Any shareholder entitled to appraisal rights may, within twenty (20) days after the date of mailing of the notice, demand in writing from the surviving or resulting corporation the appraisal of the holder's shares.



The demand will be sufficient if it reasonably informs the corporation of the identity of the shareholder and that the shareholder intends to demand the appraisal of the holder's shares. If the notice does not notify shareholders of the effective date of the merger or consolidation either:

- a. each constituent corporation shall send a second notice before the effective date of the merger or consolidation notifying each of the holders of any class or series of stock of the constituent corporation that are entitled to appraisal rights of the effective date of the merger or consolidation, or
- b. the surviving or resulting corporation shall send a second notice to all holders on or within ten (10) days after the effective date of the merger or consolidation; provided, however, that if the second notice is sent more than twenty (20) days following the mailing of the first notice, the second notice need only be sent to each shareholder who is entitled to appraisal rights and who has demanded appraisal of the holder's shares in accordance with this subsection. An affidavit of the secretary or assistant secretary or of the transfer agent of the corporation that is required to give either notice that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. For purposes of determining the shareholders entitled to receive either notice, each constituent corporation may fix, in advance, a record date that shall be not more than ten (10) days prior to the date the notice is given; provided, if the notice is given on or after the effective date of the merger or consolidation, the record date shall be the effective date. If no record date is fixed and the notice is given prior to the effective date, the record date shall be the close of business on the day next preceding the day on which the notice is given.

E. Within one hundred twenty (120) days after the effective date of the merger or consolidation, the surviving or resulting corporation or any shareholder who has complied with the provisions of subsections A and D of this section and who is otherwise entitled to appraisal rights, may file a petition in district court demanding a determination of the value of the stock of all such shareholders; provided, however, at any time within sixty (60) days after the effective date of the merger or consolidation, any shareholder shall have the right to withdraw the demand of the shareholder for appraisal and to accept the terms offered upon the merger or consolidation. Within one hundred twenty (120) days after the effective date of the merger or consolidation, any shareholder who has complied with the requirements of subsections A and D of this section, upon written request, shall be entitled to receive from the corporation surviving the merger or resulting from the consolidation a statement setting forth the aggregate number of shares not voted in favor of the merger or consolidation and with respect to which demands for appraisal have been received and the aggregate number of holders of the shares. The written statement shall be mailed to the shareholder within ten (10) days after the shareholder's written request for a statement is received by the surviving or resulting corporation or within ten (10) days after expiration of the period for delivery of demands for appraisal pursuant to the provisions of subsection D of this section, whichever is later.

F. Upon the filing of any such petition by a shareholder, service of a copy thereof shall be made upon the surviving or resulting corporation, which, within twenty (20) days after such service, shall file in the office of the court clerk of the district court in which the petition was filed a duly verified list containing the names and addresses of all shareholders who have demanded payment for their shares and with whom agreements regarding the value of their shares have not been reached by the surviving or resulting corporation. If the petition shall be filed by the surviving or resulting corporation, the petition shall be accompanied by such a duly verified list. The court clerk, if so ordered by the court, shall give notice of the time and place fixed for the hearing on the petition by registered or certified mail to the surviving or resulting corporation and to the shareholders shown on the list at the addresses therein stated. Notice shall also be given by one or more publications at least one (1) week before the day of the hearing, in a newspaper of general circulation published in the City of Oklahoma City, Oklahoma, or other publication as the court deems advisable. The forms of the notices by mail and by publication shall be approved by the court, and the costs thereof shall be borne by the surviving or resulting corporation.

- G. At the hearing on the petition, the court shall determine the shareholders who have complied with the provisions of this section and who have become entitled to appraisal rights. The court may require the shareholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates of stock to the court clerk for notation thereon of the pendency of the appraisal proceedings; and if any shareholder fails to comply with this direction, the court may dismiss the proceedings as to that shareholder.
- H. After determining the shareholders entitled to an appraisal, the court shall appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or expectation of the merger or consolidation, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. In determining the fair value, the court shall take into account all relevant factors. In determining the fair rate of interest, the court may consider all relevant factors, including the rate of interest which the surviving or resulting corporation would have to pay to borrow money during the pendency of the proceeding. Upon application by the surviving or resulting corporation or by any shareholder entitled to participate in the appraisal proceeding, the court may, in its discretion, permit discovery or other pretrial proceedings and may proceed to trial upon the appraisal prior to the final determination of the shareholder entitled to an appraisal. Any shareholder whose name appears on the list filed by the surviving or resulting corporation pursuant to the provisions of subsection F of this section and who has submitted the certificates of stock of the shareholder to the court clerk, if required, may participate fully in all proceedings until it is finally determined that the shareholder is not entitled to appraisal rights pursuant to the provisions of this section.
- I. The court shall direct the payment of the fair value of the shares, together with interest, if any, by the surviving or resulting corporation to the shareholders entitled thereto. Interest may be simple or compound, as the court may direct. Payment shall be made to each shareholder, in the case of holders of uncertificated stock immediately, and in the case of holders of shares represented by certificates upon the surrender to the corporation of the certificates representing the stock. The court's decree may be enforced as other decrees in the district court may be enforced, whether the surviving or resulting corporation be a corporation of this state or of any other state.
- J. The costs of the proceeding may be determined by the court and taxed upon the parties as the court deems equitable in the circumstances. Upon application of a shareholder, the court may order all or a portion of the expenses incurred by any shareholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney's fees and the fees and expenses of experts, to be charged pro rata against the value of all of the shares entitled to an appraisal.
- K. From and after the effective date of the merger or consolidation, no shareholder who has demanded appraisal rights as provided for in subsection D of this section shall be entitled to vote such stock for any purpose or to receive payment of dividends or other distributions on the stock, except dividends or other distributions payable to shareholders of record at a date which is prior to the effective date of the merger or consolidation; provided, however, that if no petition for an appraisal shall be filed within the time provided for in subsection E of this section, or if the shareholder shall deliver to the surviving or resulting corporation a written withdrawal of the shareholder's demand for an appraisal and an acceptance of the merger or consolidation, either within sixty (60) days after the effective date of the merger or consolidation as provided for in subsection E of this section or thereafter with the written approval of the corporation, then the right of the shareholder to an appraisal shall cease; provided further, no appraisal proceeding in the district court shall be dismissed as to any shareholder without the approval of the court, and such approval may be conditioned upon such terms as the court deems just.
- L. The shares of the surviving or resulting corporation into which the shares of any objecting shareholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

## PART II

## INFORMATION NOT REQUIRED IN PROSPECTUS

## ITEM 20. INDEMNIFICATION OF OFFICERS AND DIRECTORS

Section 1031 of the Oklahoma General Corporation Act, under which the Registrant is incorporated, authorizes the indemnification of directors and officers under certain circumstances. Article VIII of the Certificate of Incorporation of the Registrant and Article VI of the Bylaws of the Registrant also provide for indemnification of directors and officers under certain circumstances. These provisions, together with the Registrant's indemnification obligations under individual indemnity agreements with its directors and officers, may be sufficiently broad to indemnify such persons for liabilities under the Securities Act of 1933 (the "Securities Act"), as amended. In addition, the Registrant maintains insurance, which insures its directors and officers against certain liabilities.

The Oklahoma General Corporation Act provides for indemnification of each of Chesapeake's officers and directors against (a) expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by them in connection with any action, suit or proceeding brought by reason of such person being or having been a director, officer, employee or agent of Chesapeake, or of any other corporation, partnership, joint venture, trust or other enterprise at the request of Chesapeake, other than an action by or in the right of Chesapeake. To be entitled to indemnification, the individual must have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interest of Chesapeake, and with respect to any criminal action, the person seeking indemnification had no reasonable cause to believe that the conduct was unlawful and (b) expenses, including attorneys' fees, actually and reasonably incurred in connection with the defense or settlement of any action or suit by or in the right of Chesapeake brought by reason of the person seeking indemnification being or having been a director, officer, employee or agent of Chesapeake, or any other corporation, partnership, joint venture, trust or other enterprise at the request of Chesapeake, provided the actions were in good faith and were reasonably believed to be in or not opposed to the best interest of Chesapeake, except that no indemnification shall be made in respect of any claim, issue or matter as to which the individual shall have been adjudged liable to Chesapeake, unless and only to the extent that the court in which such action was decided has determined that the person is fairly and reasonably entitled to indemnity for such expenses which the court deems proper. Article VIII of Chesapeake's Certificate of Incorporation provides for indemnification of Chesapeake's director and officers. The Oklahoma General Corporation Act also permits Chesapeake to purchase and maintain insurance on behalf of Chesapeake's directors and officers against any liability arising out of their status as such, whether or not Chesapeake would have the power to indemnify them against such liability. These provisions may be sufficiently broad to indemnify such persons for liabilities arising under the Securities Act.

Chesapeake has entered into indemnity agreements with each of its directors and executive officers. Under each indemnity agreement, Chesapeake will pay on behalf of the indemnitee any amount which he is or becomes legally obligated to pay because of (a) any claim or claims from time to time threatened or made against him by any person because of any act or omission or neglect or breach of duty, including any actual or alleged error or misstatement or misleading statement, which he commits or suffers while acting in his capacity as a director and/or officer of Chesapeake or an affiliate or (b) being a party, or being threatened to be made a party, to any threatened, pending or contemplated action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was an officer, director, employee or agent of Chesapeake or an affiliate or is or was serving at the request of Chesapeake as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. The payments which Chesapeake would be obligated to make under an indemnification agreement could include damages, charges, judgments, fines, penalties, settlements and costs, cost of investigation and cost of defense of legal, equitable or criminal actions, claims or proceedings and appeals therefrom, and costs of attachment, supersedeas, bail, surety or other bonds. Chesapeake also provides liability insurance for each of its directors and executive officers.

## ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

EXHIBIT NO. -----	DESCRIPTION -----
2.1	-- Senior Secured Discount Notes Purchase Agreement dated June 23, 2000 between Chesapeake Energy Marketing, Inc. and Appaloosa Investment Limited Partnership I, Palomino Fund Ltd. and Tersk L.L.C. Incorporated herein by reference to Exhibit 2.1 to Registrant's Form S-1 Registration Statement (No. 333-41014).
2.2	-- Senior Secured Discount Notes Purchase Agreement dated June 23, 2000 between Chesapeake Energy Marketing, Inc. and Oppenheimer Strategic Income Fund, Oppenheimer Champion Income Fund, Oppenheimer High Yield Fund, Oppenheimer Strategic Bond Fund/VA and Atlas Strategic Income Fund. Incorporated herein by reference to Exhibit 2.2 to Registrant's Form S-1 Registration Statement (No. 333-41014).
2.3	-- Senior Secured Discount Notes Purchase Agreement dated June 26, 2000 between Chesapeake Energy Marketing, Inc. and John Hancock High Yield Bond Fund and John Hancock Variable Annuity High Yield Bond Fund. Incorporated herein by reference to Exhibit 2.3 to Registrant's Form S-1 Registration Statement (No. 333-41014).
2.4	-- Senior Secured Discount Notes Purchase Agreement dated June 26, 2000 between Chesapeake Energy Marketing, Inc. and Ingalls & Snyder Value Partners, L.P., Heritage Mark Foundation and Arthur R. Ablin. Incorporated herein by reference to Exhibit 2.4 to Registrant's Form S-1 Registration Statement (No. 333-41014).
2.5	-- Senior Secured Discount Notes Purchase Agreement dated August 29, 2000 between Chesapeake Energy Marketing, Inc. and BNP Paribas. Incorporated herein by reference to Exhibit 2.5 to Registrant's registration statement on Form S-1 (No. 333-45872).
2.6	-- Senior Secured Notes Purchase Agreement dated September 1, 2000 between Chesapeake Energy Corporation and Lehman Brothers Inc. Incorporated herein by reference to Exhibit 2.6 to Registrant's registration statement on Form S-1 (No. 333-45872).
2.7	-- Agreement and Plan of Merger dated September 8, 2000 among Chesapeake Energy Corporation, Chesapeake Merger 2000 Corp. and Gothic Energy Corporation. Incorporated herein by reference to Exhibit 2.7 to Registrant's registration statement on Form S-1 (No. 333-45872).
3.1	-- Registrant's Certificate of Incorporation, as amended. Incorporated herein by reference to Exhibit 3.1 to Registrant's registration statement on Form S-1 (No. 333-45872).
3.2	-- Registrant's Bylaws. Incorporated herein by reference to Exhibit 3.2 to Registrant's registration statement on Form 8-B (No. 001-13726).

EXHIBIT NO. -----	DESCRIPTION -----
4.1	-- Indenture dated as of March 15, 1997 among the Registrant, as issuer, Chesapeake Operating, Inc., Chesapeake Gas Development Corporation and Chesapeake Exploration Limited Partnership, as Subsidiary Guarantors, and United States Trust Company of New York, as Trustee, with respect to 7.875% Senior Notes due 2004. Incorporated herein by reference to Exhibit 4.1 to Registrant's registration statement on Form S-4 (No. 333-24995). First Supplemental Indenture dated December 17, 1997 and Second Supplemental Indenture dated February 16, 1998. Incorporated herein by reference to Exhibit 4.1.1 to Registrant's transition report on Form 10-K for the six months ended December 31, 1997. Second [Third] Supplemental Indenture dated April 22, 1998. Incorporated herein by reference to Exhibit 4.1.1 to Registrant's Amendment No. 1 to Form S-3 registration statement (No. 333-57235). Fourth Supplemental Indenture dated July 1, 1998. Incorporated herein by reference to Exhibit 4.1.1 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1998.
4.2	-- Indenture dated as of March 15, 1997 among the Registrant, as issuer, Chesapeake Operating, Inc., Chesapeake Gas Development Corporation and Chesapeake Exploration Limited Partnership, as Subsidiary Guarantors, and United States Trust Company of New York, As Trustee, with respect to 8.5% Senior Notes due 2012. Incorporated herein by reference to Exhibit 4.1.3 to Registrant registration statement on Form S-4 (No. 333-24995). First Supplemental Indenture dated December 17, 1997 and Second Supplemental Indenture dated February 16, 1998. Incorporated herein by reference to Exhibit 4.2.1 to Registrant's transition report on Form 10-K for the six months ended December 31, 1997. Second [Third] Supplemental Indenture dated April 22, 1998. Incorporated herein by reference to Exhibit 4.2.1 to Registrant's Amendment No. 1 to Form S-3 registration statement (No. 333-57235). Fourth Supplemental Indenture dated July 1, 1998. Incorporated herein by reference to Exhibit 4.2.1 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1998.
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8.1*	-- Opinion of Pray, Walker, Jackman, Williamson & Marlar regarding certain tax matters.
10.1.1+	-- Registrant's 1992 Incentive Stock Option Plan. Incorporated herein by reference to Exhibit 10.1.1 to Registrant's registration statement on Form S-4 (No. 33-93718).
10.1.2+	-- Registrant's 1992 Nonstatutory Stock Option Plan, as Amended. Incorporated herein by reference to Exhibit 10.1.2 to Registrant's quarterly report on Form 10-Q for the quarter ended December 31, 1996.
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10.2.1+	-- Amended and Restated Employment Agreement dated as of July 1, 1998, as amended by First Amendment thereto dated December 31, 1998, between Aubrey K. McClendon and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.1 to Registrant's quarterly reports on Form 10-Q for the quarters ended September 30, 1998 and June 30, 1999.
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10.10	-- Partnership Agreement of Chesapeake Exploration Limited Partnership dated December 27, 1994 between Chesapeake Energy Corporation and Chesapeake Operating, Inc. Incorporated herein by reference to Exhibit 10.10 to Registrant's registration statement on Form S-4 (No. 33-93718).
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21	-- Subsidiaries of Registrant. Incorporated herein by reference to Exhibit 21 to Registrant's annual report on Form 10-K for the year ended December 31, 1999.
23.1.1*	-- Consent of PricewaterhouseCoopers LLP as to Chesapeake
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23.2*	-- Consent of Williamson Petroleum Consultants, Inc.
23.3*	-- Consent of Ryder Scott Company Petroleum Engineers
23.4*	-- Consent of Lee Keeling and Associates, Inc.
23.5*	-- Consent of CIBC World Markets Corp.
23.6*	-- Consent of Pray, Walker, Jackman, Williamson & Marlar (included in Exhibit 8.1).
23.7*	-- Consent of Winstead Sechrest & Minick P.C. (included in Exhibit 5.1).
24.1*	-- Power of Attorney
99.1*	-- Form of Gothic Proxy

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\* Filed herewith.

+ Management contract or compensatory plan or arrangement.

(b) Financial Statement Schedules. Schedule II, Valuation and Qualifying Accounts is included with the Company's audited consolidated financial statements included in the prospectus which is Part I of this Registration Statement. No other financial statement schedules are applicable or required.

#### ITEM 22. UNDERTAKINGS

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of Chesapeake, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by Chesapeake of expenses incurred or paid by a director, officer or controlling person of Chesapeake in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, Chesapeake will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.



The undersigned Registrant hereby undertakes:

(1) To respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of Form S-4, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the Registration Statement through the date of responding to the request;

(2) That, prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this Registration Statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other Items of the applicable form;

(3) That every prospectus (i) that is filed pursuant to paragraph (2) immediately preceding, or (ii) that purports to meet the requirements of section 10(a)(3) of the Securities Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof; and

(4) To supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the Registration Statement when it became effective.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Oklahoma City, State of Oklahoma on October 4, 2000.

CHESAPEAKE ENERGY CORPORATION

By: /s/ AUBREY K. MCCLENDON

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

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities indicated on October 4, 2000.

## SIGNATURE

## TITLE

-----  
/s/ AUBREY K. MCCLENDON

-----  
Chairman of the Board, Chief Executive Officer  
and Director (Principal Executive Officer)

-----  
Aubrey K. McClendon

-----  
/s/ TOM L. WARD

-----  
President, Chief Operating Officer and  
Director (Principal Executive Officer)

-----  
Tom L. Ward

-----  
/s/ MARCUS C. ROWLAND

-----  
Executive Vice President and Chief Financial  
Officer (Principal Financial Officer)

-----  
Marcus C. Rowland

-----  
/s/ MICHAEL A. JOHNSON

-----  
Senior Vice President -- Accounting (Principal  
Accounting Officer)

-----  
Michael A. Johnson

-----  
/s/ EDGAR F. HEIZER, JR.

-----  
Director

-----  
Edgar F. Heizer, Jr.

-----  
/s/ BREENE M. KERR

-----  
Director

-----  
Breene M. Kerr

-----  
/s/ SHANNON T. SELF

-----  
Director

-----  
Shannon T. Self

-----  
/s/ FREDERICK B. WHITTEMORE

-----  
Director

-----  
Frederick B. Whittemore

## INDEX TO EXHIBITS

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2.1	-- Senior Secured Discount Notes Purchase Agreement dated June 23, 2000 between Chesapeake Energy Marketing, Inc. and Appaloosa Investment Limited Partnership I, Palomino Fund Ltd. and Tersk L.L.C. Incorporated herein by reference to Exhibit 2.1 to Registrant's Form S-1 Registration Statement (No. 333-41014).
2.2	-- Senior Secured Discount Notes Purchase Agreement dated June 23, 2000 between Chesapeake Energy Marketing, Inc. and Oppenheimer Strategic Income Fund, Oppenheimer Champion Income Fund, Oppenheimer High Yield Fund, Oppenheimer Strategic Bond Fund/VA and Atlas Strategic Income Fund. Incorporated herein by reference to Exhibit 2.2 to Registrant's Form S-1 Registration Statement (No. 333-41014).
2.3	-- Senior Secured Discount Notes Purchase Agreement dated June 26, 2000 between Chesapeake Energy Marketing, Inc. and John Hancock High Yield Bond Fund and John Hancock Variable Annuity High Yield Bond Fund. Incorporated herein by reference to Exhibit 2.3 to Registrant's Form S-1 Registration Statement (No. 333-41014).
2.4	-- Senior Secured Discount Notes Purchase Agreement dated June 26, 2000 between Chesapeake Energy Marketing, Inc. and Ingalls & Snyder Value Partners, L.P., Heritage Mark Foundation and Arthur R. Ablin. Incorporated herein by reference to Exhibit 2.4 to Registrant's Form S-1 Registration Statement (No. 333-41014).
2.5	-- Senior Secured Discount Notes Purchase Agreement dated August 29, 2000 between Chesapeake Energy Marketing, Inc. and BNP Paribas. Incorporated herein by reference to Exhibit 2.5 to Registrant's registration statement on Form S-1 (No. 333-45872).
2.6	-- Senior Secured Notes Purchase Agreement dated September 1, 2000 between Chesapeake Energy Corporation and Lehman Brothers Inc. Incorporated herein by reference to Exhibit 2.6 to Registrant's registration statement on Form S-1 (No. 333-45872).
2.7	-- Agreement and Plan of Merger dated September 8, 2000 among Chesapeake Energy Corporation, Chesapeake Merger 2000 Corp. and Gothic Energy Corporation. Incorporated herein by reference to Exhibit 2.7 to Registrant's registration statement on Form S-1 (No. 333-45872).
3.1	-- Registrant's Certificate of Incorporation, as amended. Incorporated herein by reference to Exhibit 3.1 to Registrant's registration statement on Form S-1 (No. 333-45872).
3.2	-- Registrant's Bylaws. Incorporated herein by reference to Exhibit 3.2 to Registrant's registration statement on Form 8-B (No. 001-13726).

EXHIBIT  
NO.

## DESCRIPTION

- 
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24.1*	-- Power of Attorney
99.1*	-- Form of Gothic Proxy

- -----  
\* Filed herewith.

+ Management contract or compensatory plan or arrangement.

October 4, 2000

Chesapeake Energy Corporation  
6100 North Western Avenue  
Oklahoma City, OK 73118

Re: Registration Statement on Form S-4

Ladies and Gentlemen:

We have examined the Registration Statement on Form S-4 to be filed by you with the Securities and Exchange Commission on or about October 4, 2000. The Registration Statement covers 4,000,000 shares of common stock, par value \$.01 per share, of Chesapeake Energy Corporation to be issued in connection with the merger of your wholly owned subsidiary Chesapeake Merger 2000 Corp. with and into Gothic Energy Corporation pursuant to the terms of the Agreement and Plan of Merger, dated September 8, 2000, among Chesapeake Energy Corporation, Gothic Energy Corporation and Chesapeake Merger 2000 Corp. (the "Merger Agreement"). We have also examined the Merger Agreement and your Certificate of Incorporation, Bylaws, minute books and other corporate records, and we have made such other investigation as we have deemed necessary in order to render the opinions expressed herein.

Based on the foregoing, we are of the opinion that the shares covered by the Registration Statement, upon approval of the Merger Agreement by a majority of the outstanding shares of common stock of Gothic Energy Corporation and when issued in accordance with the Merger Agreement, will be legally issued, fully paid and nonassessable in accordance with the Oklahoma General Corporation Act.

Consent is hereby given for the inclusion of this opinion as part of the Registration Statement.

Very truly yours,

/s/ WINSTEAD SECHREST & MINICK P.C.  
WINSTEAD SECHREST & MINICK P.C.



PRAY, WALKER, JACKMAN, WILLIAMSON & MARLAR  
A PROFESSIONAL CORPORATION

ATTORNEYS AT LAW

900 ONEOK PLAZA  
100 WEST 5TH STREET  
TULSA, OKLAHOMA 74103-4218

TELEPHONE (918) 581-5500

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September 29, 2000

Board of Directors  
Gothic Energy Corporation  
6120 South Yale Avenue, Suite 1200  
Tulsa, Oklahoma 74136

Ladies and Gentlemen:

This opinion is being delivered to you in connection with the filing, on or about the date hereof, with the Securities and Exchange Commission of the Registration Statement on Form S-4, dated September 29, 2000 (the "Registration Statement"), of Chesapeake Energy Corporation, an Oklahoma corporation ("Chesapeake"), including the Proxy Statement for Gothic Energy Corporation, an Oklahoma corporation ("Gothic"), and the Prospectus for Chesapeake. The Registration Statement relates to the Agreement and Plan of Merger, dated September 8, 2000 (the "Agreement"), by and among Chesapeake, Chesapeake Merger 2000 Corp., an Oklahoma corporation and wholly-owned subsidiary of Chesapeake ("Sub"), and Gothic. Pursuant to the Agreement, Sub will merge with and into Gothic (the "Merger").

The opinion set forth in this letter is based on relevant provisions of the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations thereunder (including proposed and temporary Regulations), and interpretations of the foregoing as expressed in court decisions, legislative history, and existing administrative rulings and practices of the Internal Revenue Service (including its practices and policies in issuing private letter rulings, which are not binding on the Internal Revenue Service except with respect to a taxpayer that receives such a ruling), all as of the date hereof. These provisions and interpretations are subject to change which may or may not be retroactive in effect, that might result in modifications of our opinion. Our opinion does not foreclose the possibility of a contrary determination by the Internal Revenue Service or a court of competent jurisdiction, or of a contrary position by the Internal Revenue Service or the Treasury Department in regulations or rulings issued in the future.

In rendering our opinion, we have made such factual and legal inquiries as we have deemed necessary or appropriate for purposes of our opinion. For purposes of rendering our opinion, however, we have not made an independent investigation or audit of the facts set forth in the Registration Statement. We have assumed, with your consent, that all of the representations and statements set forth in the documents that we reviewed (including, without limitation, the Registration Statement) are true and correct, and each of the obligations imposed by any such document on the parties thereto has been and will be performed or satisfied in accordance with its terms. Further, we have assumed the genuineness of all signatures, the proper execution of all documents, the authenticity of all documents submitted to us as originals, the conformity to originals of documents submitted to us as copies, and the authenticity of the originals from which any copies were made.

Board of Directors  
Gothic Energy Corporation  
September 29, 2000  
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Based upon, subject to, and limited by the assumptions and qualifications set forth herein, we are of the opinion that the discussion in the Registration Statement under the heading "Certain United States Federal Income Tax Consequences," to the extent such discussion describes applicable federal income tax law, is correct in all material respects, as of the date hereof.

In addition to the assumptions set forth above, this opinion is subject to the exceptions, limitations and qualifications set forth below:

1. This opinion represents and is based upon our best judgment regarding the application of relevant current provisions of the Code and interpretations of the foregoing as expressed in existing court decisions, administrative determinations (including the practices and procedures of the Internal Revenue Service in issuing private letter rulings, which are not binding on the Internal Revenue Service except with respect to the taxpayer that receives such a ruling) and published rulings and procedures all as of the date hereof. An opinion of counsel merely represents counsel's best judgment with respect to the probable outcome on the merits and is not binding on the Internal Revenue Service or the courts. There can be no assurance that positions contrary to our opinion will not be taken by the Internal Revenue Service, or that a court considering the issues would not hold contrary to such opinion. Furthermore, no assurance can be given that future legislative, judicial or administrative changes, on either a prospective or retroactive basis, would not adversely affect the accuracy of the opinion expressed herein. Nevertheless, we undertake no responsibility to advise you of any new developments in the law or in the application or interpretation of the federal income tax laws.

2. This letter addresses only the specific tax opinion set forth above. This letter does not address any other federal, state, local or foreign tax consequences that may result from the Merger or any other transaction (including any transaction undertaken in connection with the Merger).

This opinion is provided to Gothic Energy Corporation only, and without our prior consent, may not be relied upon, used, circulated, quoted or otherwise referred to in any manner by any person, firm, governmental authority or entity whatsoever. Notwithstanding the prior sentence, we hereby consent to the use of the opinion letter as an exhibit to the Registration Statement. In giving the consent, however, we do not thereby admit that we are an "expert" within the meaning of the Securities Act of 1933, as amended.

Very truly yours,

/s/ PRAY, WALKER, JACKMAN, WILLIAMSON & MARLAR

Pray, Walker, Jackman, Williamson & Marlar

## CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this Registration Statement on Form S-4 of our report dated March 24, 2000 relating to the consolidated financial statements and financial statement schedule of Chesapeake Energy Corporation, which appears in such Registration Statement. We also consent to the references to us under the heading "Experts" in such Registration Statement.

/s/ PRICEWATERHOUSECOOPERS LLP  
PricewaterhouseCoopers LLP

Oklahoma City, Oklahoma  
October 2, 2000

## CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this Registration Statement on Form S-4 of our report dated February 21, 2000 relating to the consolidated financial statements and financial statement schedule of Gothic Energy Corporation, which appears in such Registration Statement. We also consent to the references to us under the heading "Experts" in such Registration Statement.

/s/ PRICEWATERHOUSECOOPERS LLP  
PricewaterhouseCoopers LLP

Tulsa, Oklahoma  
September 29, 2000

## CONSENT OF WILLIAMSON PETROLEUM CONSULTANTS, INC.

As independent oil and gas consultants, Williamson Petroleum Consultants, Inc. hereby consents to the use of our reserve report dated March 22, 2000 entitled, "Evaluation of Oil and Gas Reserves to the Interests of Chesapeake Energy Corporation in Certain Major-Value Properties in the United States Effective December 31, 1999 for Disclosure to the Securities and Exchange Commission Utilizing Aries Software Williamson Project 9.8764" and all references to our firm included in or made a part of the Chesapeake Energy Corporation Registration Statement on Form S-4 to be filed with the Securities and Exchange Commission on or about October 2, 2000.

/s/ WILLIAMSON PETROLEUM CONSULTANTS, INC.  
WILLIAMSON PETROLEUM CONSULTANTS, INC.

Midland, Texas  
September 29, 2000

## CONSENT OF RYDER SCOTT COMPANY L.P.

As independent oil and gas consultants, Ryder Scott Company L.P., hereby consents to the use of our reserve report dated as of December 31, 1999 and all references to our firm included in or made a part of the Chesapeake Energy Corporation Form S-4 to be filed with the Securities and Exchange Commission on or about October 2, 2000. We also consent to the references to us under the heading "Experts" in such Registration Statement.

/s/ RYDER SCOTT COMPANY, L.P.  
RYDER SCOTT COMPANY, L.P.

September 29, 2000  
Houston, Texas

## CONSENT OF LEE KEELING AND ASSOCIATES, INC.

As independent oil and gas consultants, Lee Keeling and Associates, Inc., hereby consents to the use of our reserve report dated March 27, 2000 addressed to Gothic Energy Corporation and all references to our firm included in or made a part of the Chesapeake Energy Corporation Form S-4 to be filed on or about September 29, 2000. We also consent to the references to us under the heading "Experts" in such Registration Statement.

/s/ LEE KEELING AND ASSOCIATES, INC.  
LEE KEELING AND ASSOCIATES, INC.

September 29, 2000  
Tulsa, Oklahoma

[CIBC LETTERHEAD]

September 28, 2000

The Board of Directors  
Gothic Energy Corporation  
Two Warren Place  
6120 South Yale Avenue, Suite 1200  
Tulsa, OK 74136

Gentlemen:

We hereby consent to the inclusion of our opinion letter dated September 8, 2000 (the "Opinion") to the Board of Directors of Gothic Energy Corporation ("Gothic") in its entirety in the registration statement on Form S-4 relating to the proposed merger of Gothic and Chesapeake Merger 2000 Corp. (a wholly owned subsidiary of Chesapeake Energy Corporation)(the "Agreement"). In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the rules and regulations adopted by the Securities and Exchange Commission thereunder nor do we admit that we are experts with respect to any part of such registration statement within the meaning of the term "experts" as used in the Securities Act of 1933, as amended, or the rules and regulations adopted by the Securities and Exchange Commission thereunder.

Very truly yours,

/s/ CIBC WORLD MARKETS

CIBC World Markets Corp.



## POWER OF ATTORNEY

We, the undersigned officers and directors of Chesapeake Energy Corporation (hereinafter, the "Company"), hereby severally constitute and appoint Aubrey K. McClendon, Tom L. Ward and Marcus C. Rowland, and each of them, severally, our true and lawful attorneys-in-fact and agents, each with full power to act without the other and with full power of substitution and resubstitution, to sign for us, in our names as officers or directors, or both, of the Company, and file with the Securities and Exchange Commission and any state securities regulatory board or commission any documents relating to the securities offered pursuant to this Registration Statement on Form S-4, including any amendments to this Registration Statement on Form S-4 or otherwise (including post-effective amendments) and any registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933 and any documents required to be filed with respect thereto, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and to perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as each of us might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

DATED this 4th day of October, 2000.

/s/ Aubrey K. McClendon

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

/s/ Marcus C. Rowland

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Marcus C. Rowland, Executive  
Vice President and Chief  
Financial Officer (Principal  
Financial Officer)

/s/ E.F. Heizer

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E.F. Heizer, Jr., Director

/s/ Shannon T. Self

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Shannon T. Self, Director

/s/ Tom L. Ward

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Tom L. Ward, President, Chief  
Operating Officer and Director  
(Principal Executive Officer)

/s/ Michael A. Johnson

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Michael A. Johnson, Senior  
Vice President - Accounting  
(Principal Accounting Officer)

/s/ Breene M. Kerr

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Breene M. Kerr, Director

/s/ Frederick B. Whittemore

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Frederick B. Whittemore,  
Director

## [FORM OF PROXY CARD]

PROXY  
GOTHIC ENERGY CORPORATIONPROXY FOR SPECIAL MEETING OF SHAREHOLDERS  
TO BE HELD [\_\_\_\_], 2000  
SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Andrew McGuire and Linda Esley, or either of them, proxies with full power of substitution to vote all shares of common stock of Gothic Energy Corporation standing in the name of the undersigned at the special meeting of Gothic Energy Corporation shareholders to be held on [\_\_\_\_], [\_\_\_\_], 2000, at 10:00 AM local time, at Two Warren Place, 19th Floor, 6120 South Yale Avenue, Tulsa, Oklahoma and any adjournment thereof, as follows:

Proposal to approve the Agreement and Plan of Merger among Gothic Energy Corporation, Chesapeake Energy Corporation and Chesapeake Merger 2000 Corp.

FOR                       AGAINST                       ABSTAIN

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR APPROVAL OF THE MERGER AGREEMENT. IF OTHER BUSINESS IS PROPERLY PRESENTED AT THE MEETING, THIS PROXY SHALL BE VOTED IN ACCORDANCE WITH THE BEST JUDGMENT OF THE PROXIES ON THOSE MATTERS.

(CONTINUED, AND TO BE SIGNED AND DATED, ON REVERSE SIDE)

Please sign exactly as name appears below. When shares are held by joint tenants, both should sign. When signing as attorney, as executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by president or other authorized officer. If a partnership, please sign in partnership name by authorized person.

Dated \_\_\_\_\_, 2000

Signature\_\_\_\_\_

Signature\_\_\_\_\_

PLEASE VOTE, SIGN, DATE AND PROMPTLY RETURN THIS CARD IN THE ENCLOSED POSTAGE-PREPAID ENVELOPE.