

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1998

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NO. 1-13726

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

OKLAHOMA
(State or other jurisdiction of
incorporation or organization)

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

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

73118
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

YES NO

At July 31, 1998, there were 98,335,100 shares of the registrant's \$.01 par
value Common Stock outstanding.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

INDEX TO FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 1998

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CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

ASSETS

	JUNE 30, 1998	DECEMBER 31, 1997
	----- (UNAUDITED) (\$ IN THOUSANDS)	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 59,690	\$ 123,860
Short-term investments	6,637	12,570
Accounts receivable:		
Oil and gas sales	21,866	10,654
Oil and gas marketing sales	26,122	20,493
Joint interest and other, net of allowance for doubtful accounts of \$1,049,000 and \$691,000.....	32,898	38,781
Related parties	6,707	4,246
Inventory	5,216	5,493
Other	2,378	1,624
	-----	-----
Total current assets	161,514	217,721
	-----	-----
PROPERTY AND EQUIPMENT:		
Oil and gas properties, at cost based on full cost accounting:		
Evaluated oil and gas properties	2,002,236	1,095,363
Unevaluated properties	99,229	125,155
Less: accumulated depreciation, depletion and amortization	(1,143,521)	(602,391)
	-----	-----
Other property and equipment	957,944	618,127
Less: accumulated depreciation and amortization	77,309	67,633
	(18,887)	(6,573)
	-----	-----
Total property and equipment	1,016,366	679,187
	-----	-----
OTHER ASSETS	82,293	55,876
	-----	-----
TOTAL ASSETS	\$ 1,260,173	\$ 952,784
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 58,559	\$ 81,775
Accrued liabilities and other	49,906	42,733
Revenues and royalties due others	21,615	28,972
	-----	-----
Total current liabilities	130,080	153,480
	-----	-----
LONG-TERM DEBT, NET	919,034	508,992
	-----	-----
REVENUES AND ROYALTIES DUE OTHERS	11,345	10,106
	-----	-----
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; 4,600,000 and 0 shares of 7% cumulative convertible stock issued and outstanding at June 30, 1998 and December 31, 1997, respectively, entitled in liquidation to \$230 million.....	230,000	--
Common stock, 250,000,000 shares authorized; \$.01 par value; 100,903,950 and 74,298,061 shares issued and outstanding at June 30, 1998, and December 31, 1997, respectively	1,009	743
Paid-in capital	680,511	460,733
Accumulated deficit	(693,975)	(181,270)
Less: treasury stock, at cost; 4,282,000 and zero shares at June 30, 1998 and December 31, 1997, respectively	(17,831)	--
	-----	-----
Total stockholders' equity	199,714	280,206
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,260,173	\$ 952,784
	=====	=====

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,	
	1998	1997	1998	1997
REVENUES:				
Oil and gas sales	\$ 75,639	\$ 45,354	\$ 125,880	\$ 102,753
Oil and gas marketing sales	33,671	23,743	60,195	46,153
Interest and other	2,571	5,430	2,795	8,707
Total revenues	<u>111,881</u>	<u>74,527</u>	<u>188,870</u>	<u>157,613</u>
COSTS AND EXPENSES:				
Production expenses	14,673	4,019	22,567	7,177
Production taxes	2,621	906	4,165	2,056
Oil and gas marketing expenses	33,705	23,845	59,966	45,592
Impairment of oil and gas properties	216,000	236,000	466,000	236,000
Impairment of other assets	10,000	--	10,000	--
Oil and gas depreciation, depletion and amortization ...	43,900	42,358	75,242	67,021
Depreciation and amortization of other assets	1,922	1,073	3,302	1,946
General and administrative	5,134	2,582	9,514	5,063
Interest	18,665	8,680	29,353	12,334
Total costs and expenses	<u>346,620</u>	<u>319,463</u>	<u>680,109</u>	<u>377,189</u>
LOSS BEFORE INCOME TAX AND EXTRAORDINARY ITEM	(234,739)	(244,936)	(491,239)	(219,576)
INCOME TAX BENEFIT	--	(27,153)	--	(17,898)
LOSS BEFORE EXTRAORDINARY ITEM	(234,739)	(217,783)	(491,239)	(201,678)
EXTRAORDINARY ITEM:				
Loss on early extinguishment of debt	(13,334)	--	(13,334)	(177)
NET LOSS	<u>(248,073)</u>	<u>(217,783)</u>	<u>(504,573)</u>	<u>(201,855)</u>
PREFERRED STOCK DIVIDENDS	(4,025)	--	(4,025)	--
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	<u>\$ (252,098)</u>	<u>\$ (217,783)</u>	<u>\$ (508,598)</u>	<u>\$ (201,855)</u>
EARNINGS PER COMMON SHARE (BASIC AND ASSUMING DILUTION)				
Loss before extraordinary item	\$ (2.29)	\$ (3.12)	\$ (5.35)	\$ (2.87)
Extraordinary item	(0.12)	--	(0.15)	--
Net loss	<u>\$ (2.41)</u>	<u>\$ (3.12)</u>	<u>\$ (5.50)</u>	<u>\$ (2.87)</u>
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING				
Basic and assuming dilution	<u>104,662</u>	<u>69,819</u>	<u>92,504</u>	<u>70,277</u>

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,	
	1998	1997
	----- (\$ IN THOUSANDS) -----	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (504,573)	\$ (201,855)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion and amortization	77,542	68,274
Impairment of oil and gas assets	466,000	236,000
Impairment of other assets	10,000	--
Deferred taxes	--	(14,195)
Amortization of loan costs	1,002	693
Amortization of bond discount	56	26
Gain on sale of fixed assets and other	(368)	(1,071)
Extraordinary loss before income tax benefit	13,334	(3,526)
Equity in (earnings) losses of equity investees	285	(321)
Bad debt expense	516	299
	-----	-----
Cash provided by operating activities before changes in current assets and liabilities	63,794	84,324
Changes in current assets and liabilities	(44,074)	(42,136)
	-----	-----
Cash provided by operating activities	19,720	42,188
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Exploration, development and acquisition of oil and gas properties	(472,879)	(281,709)
Proceeds from sale of assets	4,404	--
Long-term loans made to third parties	--	(18,000)
Other investments	--	(10,751)
Repayment of long-term loan	2,000	--
Additions to other property and equipment	(5,183)	(29,245)
	-----	-----
Cash used in investing activities	(471,658)	(339,705)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings	658,750	292,626
Payments on long-term borrowings	(474,166)	(12,750)
Proceeds from issuance of preferred stock	222,781	--
Purchase of treasury stock	(17,831)	--
Cash received from exercise of stock options	101	1,114
Other financing	(1,867)	(195)
	-----	-----
Cash provided by financing activities	387,768	280,795
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(64,170)	(16,722)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	123,860	140,739
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 59,690	\$ 124,017
	=====	=====

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1998

(UNAUDITED)

1. ACCOUNTING PRINCIPLES

The accompanying unaudited consolidated financial statements of Chesapeake Energy Corporation and subsidiaries (the "Company") have been prepared in accordance with the instructions to Form 10-Q as prescribed by the Securities and Exchange Commission. All material adjustments (consisting solely of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods have been reflected. The results for the three and six months ended June 30, 1998 are not necessarily indicative of the results to be expected for the full fiscal year.

The Company changed its fiscal year end from June 30 to December 31 for the period ended December 31, 1997. This Form 10-Q relates to the three and six months ended June 30, 1998 (the "Current Quarter" and "Current Period", respectively) and June 30, 1997 (the "Prior Quarter" and "Prior Period", respectively).

2. RECENT EVENTS

On April 22, 1998, the Company issued \$230 million (4.6 million shares) of its 7% Cumulative Convertible Preferred Stock, \$50 per share liquidation preference, and \$500 million of its 9.625% Series A Senior Notes due 2005. Net proceeds from these offerings were approximately \$711 million.

On April 27, 1998, Chesapeake acquired from Gothic Energy Corporation natural gas reserves in the Arkoma Basin of Oklahoma for \$20 million, and purchased \$39.5 million of Gothic 12% preferred stock (with liquidation value of \$50 million) and ten-year warrants to purchase 15% of Gothic's currently outstanding common stock for \$0.01 per share. As part of this transaction, for additional consideration of \$10.5 million, Chesapeake entered into a five-year drilling and acquisitions participation agreement with Gothic.

On April 27, 1998, Chesapeake acquired the British Columbia properties of Sunoma Acquisitions Ltd. for \$33 million.

On April 28, 1998, the Company acquired by merger the Mid-Continent operations of DLB Oil & Gas, Inc. for \$17.5 million in cash, 5,000,000 shares of the Company's common stock, and the assumption of \$90 million in outstanding debt and working capital obligations.

On April 30, 1998, the Company acquired 100% of the stock of MC Panhandle Corp., a wholly-owned subsidiary of Occidental Petroleum Corporation, by paying approximately \$95 million, net of working capital adjustments.

Effective April 30, 1998, the Company purchased all of its \$90 million aggregate principal amount 10.5% Senior Notes due 2002. The cost to acquire the 10.5% Senior Notes was approximately \$99 million. The early retirement of these notes resulted in an extraordinary charge of approximately \$13.3 million during the Current Quarter.

3. LEGAL PROCEEDINGS

The Company and certain of its officers and directors are defendants in a consolidated class action suit alleging violations of the Securities Exchange Act of 1934. The plaintiffs assert that the defendants made material misrepresentations and failed to disclose material facts about the success of the Company's exploration efforts in the Louisiana Trend. As a result, the complaint alleges the price of the Company's common stock was artificially inflated from January 25, 1996 until June 27, 1997, when the Company issued a press release announcing disappointing drilling results in the Louisiana Trend and a full-cost ceiling writedown to be reflected in its June 30, 1997 financial statements. The plaintiffs further allege that certain of the named individual defendants sold common stock during the class period when they knew or should have known adverse nonpublic information. The plaintiffs seek a determination that the suit is a proper class action and damages in an unspecified amount, together with interest and costs of litigation, including attorneys' fees. The Company and the individual defendants believe

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1998

(UNAUDITED)

that these claims are without merit, and intend to defend against them vigorously. No estimate of loss or range of estimate of loss, if any, can be made at this time.

A purported class action alleging violations of the Securities Act of 1933 and the Oklahoma Securities Act has been filed against the Company 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 the Company received net proceeds of \$90 million as a selling shareholder. Plaintiffs allege that the Company, a major customer of Bayard's drilling services and the owner of 30.1% of Bayard's common stock outstanding prior to the offering, was a controlling person of Bayard. Plaintiffs assert that the Bayard prospectus contained material omissions and misstatements relating to (i) the Company's financial "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 the Company, (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. 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. The Company believes that the claims are without merit and intends to defend against them vigorously. No estimate of loss or range of estimate of loss, if any, can be made at this time.

In October 1996, Union Pacific Resources Company ("UPRC") sued the Company alleging infringement of a patent for a drillbit steering method. Other claims asserted by UPRC have been dismissed. UPRC's infringement claims against the Company are based on services provided to the Company by a third party vendor controlled by former UPRC employees. UPRC is seeking injunctive relief, damages of an unspecified amount, including actual and enhanced damages, interest, costs and attorneys' fees. The Company believes that it has meritorious defenses to UPRC's allegations and that the UPRC patent is invalid. The Company has filed a motion to construe UPRC's patent claims and other dispositive motions are pending. No estimate of loss or range of estimate of loss, if any, can be made at this time; however, in reports filed in the proceeding, experts for UPRC claim that damages could be as much as \$18 million while Company experts state that the amount should not exceed \$25,000, in each case based on a reasonable royalty.

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

4. IMPAIRMENT OF OIL AND GAS PROPERTIES AND OTHER ASSETS

The Company incurred an impairment of oil and gas properties charge of \$216 million in the Current Quarter. This writedown was caused primarily by the effects of accounting for the Current Quarter acquisitions using the purchase accounting method, as well as a significant decline in oil prices from March 31 to June 30. The Company also recorded a \$10 million impairment in the Current Quarter related to certain of its gas processing and transportation assets located in Louisiana.

5. NET LOSS PER SHARE

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1998

(UNAUDITED)

SFAS 128 requires a reconciliation of the numerators and denominators of the basic and diluted EPS computations. For the Current Quarter, the Prior Quarter, the Current Period and the Prior Period, there was no difference between actual weighted average shares outstanding, which are used in computing basic EPS, and diluted weighted average shares outstanding, which are used in computing diluted EPS. Options to purchase 8.3 million and 7.9 million shares of common stock at a weighted average exercise price of \$4.13 and \$7.09 were outstanding at June 30, 1998 and 1997, respectively, but were not included in the computation of diluted EPS because the effect of these outstanding options would be antidilutive.

6. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133). FAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999 (January 1, 2000 for the Company). FAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if it is, the type of hedge transaction. For fair-value hedge transactions in which the Company is hedging changes in an asset's, liability's, or firm commitment's fair value, changes in the fair value of the derivative instrument will generally be offset in the income statement by changes in the hedged item's fair value. For cash-flow hedge transactions, in which the Company is hedging the variability of cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument will be reported in other comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income will be reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current-period earnings.

The Company has not yet determined the impact that the adoption of FAS 133 will have on its earnings or its balance sheet.

7. ACQUISITION OF HUGOTON

In March 1998, the Company acquired Hugoton Energy Corporation ("Hugoton") pursuant to a merger by issuing 25.8 million shares of the Company's common stock in exchange for 100% of Hugoton's 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 information 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)
(In thousands, except per share data)

	Six Months Ended June 30,	
	1998	1997
	-----	-----
Revenues.....	\$ 198,562	\$ 198,946
Loss before extraordinary item.....	\$ (492,688)	\$(197,871)
Net Loss.....	\$ (506,022)	\$(198,048)
Loss before extraordinary item per common share.....	\$ (5.37)	\$ (2.82)
Loss per common share.....	\$ (5.51)	\$ (2.82)

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1998

(UNAUDITED)

The Company also acquired other businesses and oil and gas properties since December 1997. The results of operations of these businesses and properties were not material in relation to the Company's consolidated results of operations.

8. SENIOR NOTES

10.5% Notes

The Company had outstanding at March 31, 1998, \$90 million in aggregate principal amount of 10.5% Senior Notes due 2002. The 10.5% Notes were senior, unsecured obligations of the Company and were fully and unconditionally guaranteed, jointly and severally, by Guarantor Subsidiaries (as defined below). All outstanding 10.5% Notes were acquired by the Company effective April 30, 1998. See Note 2.

9.125% Notes

The Company 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 the Company and are fully and unconditionally guaranteed, jointly and severally, by the Guarantor Subsidiaries.

7.875% Notes

The Company 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 the Company and are fully and unconditionally guaranteed, jointly and severally, by the Guarantor Subsidiaries.

8.5% Notes

The Company 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 the Company and are fully and unconditionally guaranteed, jointly and severally, by the Guarantor Subsidiaries.

9.625% Notes

On April 22, 1998, the Company issued \$500 million aggregate principal amount of 9.625% Senior Notes which mature May 1, 2005. The 9.625% Notes bear interest at an annual rate of 9.625%, payable semiannually on each May 1 and November 1. The 9.625% Notes are senior, unsecured obligations of the Company and are fully and unconditionally guaranteed, jointly and severally, by the Guarantor Subsidiaries.

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

The Senior Note Indentures contain certain covenants, including covenants limiting the Company and the Guarantor Subsidiaries with respect to asset sales, restricted payments, the incurrence of additional indebtedness and the issuance of preferred stock, liens, sale and leaseback transactions, lines of business, dividend and other payment restrictions affecting Guarantor Subsidiaries, mergers or consolidations, and transactions with affiliates. The

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1998

(UNAUDITED)

Company is obligated to repurchase the 9.125% and 9.625% Senior Notes in the event of a change of control or certain asset sales.

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

As of and for the three and six months ended June 30, 1998, the only Non-Guarantor Subsidiary was Chesapeake Energy Marketing, Inc. As of and for the three and six months ended June 30, 1997, the Non-Guarantor Subsidiaries were Chesapeake Energy Marketing, Inc. and Chesapeake Canada Corporation. For both periods, the remaining subsidiaries of the Company were Guarantor Subsidiaries.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1998
(UNAUDITED)

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 1998
(\$ IN THOUSANDS)

	ASSETS				
	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	COMPANY (PARENT)	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----	-----
CURRENT ASSETS:					
Cash and cash equivalents	\$ (11,054)	\$ 10,415	\$ 60,329	\$ --	\$ 59,690
Short-term investments	--	--	6,637	--	6,637
Accounts receivable, net	74,865	21,821	182	(9,275)	87,593
Inventory	5,125	91	--	--	5,216
Other	1,901	(23)	500	--	2,378
	-----	-----	-----	-----	-----
Total Current Assets	70,837	32,304	67,648	(9,275)	161,514
	-----	-----	-----	-----	-----
PROPERTY AND EQUIPMENT:					
Oil and gas properties	2,002,236	--	--	--	2,002,236
Unevaluated leasehold	99,229	--	--	--	99,229
Other property and equipment	59,984	426	16,899	--	77,309
Less: accumulated depreciation, Depletion and amortization	(1,161,222)	(20)	(1,166)	--	(1,162,408)
	-----	-----	-----	-----	-----
Total Property and Equipment	1,000,227	406	15,733	--	1,016,366
	-----	-----	-----	-----	-----
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES					
	479,538	--	471,150	(950,688)	--
OTHER ASSETS					
	39,538	593	42,162	--	82,293
	-----	-----	-----	-----	-----
TOTAL ASSETS	\$ 1,590,140	\$ 33,303	\$ 596,693	\$ (959,963)	\$ 1,260,173
	=====	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt	\$ --	\$ --	\$ --	\$ --	\$ --
Accounts payable and other	88,370	27,757	24,757	(10,804)	130,080
	-----	-----	-----	-----	-----
Total Current Liabilities	88,370	27,757	24,757	(10,804)	130,080
	-----	-----	-----	-----	-----
LONG-TERM DEBT	--	--	919,034	--	919,034
	-----	-----	-----	-----	-----
REVENUES PAYABLE	11,345	--	--	--	11,345
	-----	-----	-----	-----	-----
INTERCOMPANY PAYABLES	1,321,703	(3,557)	(1,319,675)	1,529	--
	-----	-----	-----	-----	-----
STOCKHOLDERS' EQUITY:					
Preferred Stock	--	--	230,000	--	230,000
Common Stock	26	1	999	(17)	1,009
Other	168,696	9,102	741,578	(950,671)	(31,295)
	-----	-----	-----	-----	-----
Total Stockholders' Equity	168,722	9,103	972,577	(950,688)	199,714
	-----	-----	-----	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,590,140	\$ 33,303	\$ 596,693	\$ (959,963)	\$ 1,260,173
	=====	=====	=====	=====	=====

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1998
(UNAUDITED)

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 1997
(\$ IN THOUSANDS)

	ASSETS				
	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	COMPANY (PARENT)	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----	-----
CURRENT ASSETS:					
Cash and cash equivalents	\$ (589)	\$ 13,999	\$ 110,450	\$ --	\$ 123,860
Short-term investments	--	--	12,570	--	12,570
Accounts receivable, net	57,476	22,882	1,524	(7,708)	74,174
Inventory	4,918	575	--	--	5,493
Other	1,613	1	10	--	1,624
Total Current Assets	63,418	37,457	124,554	(7,708)	217,721
PROPERTY AND EQUIPMENT:					
Oil and gas properties	1,056,118	39,245	--	--	1,095,363
Unevaluated leasehold	125,155	--	--	--	125,155
Other property and equipment	51,868	343	15,422	--	67,633
Less: accumulated depreciation, Depletion and amortization	(593,359)	(14,650)	(955)	--	(608,964)
Total Property and Equipment	639,782	24,938	14,467	--	679,187
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES					
	81,755	49,958	903,713	(1,035,426)	--
OTHER ASSETS					
	10,189	6,918	38,769	--	55,876
TOTAL ASSETS	\$ 795,144	\$ 119,271	\$ 1,081,503	\$(1,043,134)	\$ 952,784
	=====	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt	\$ --	\$ --	\$ --	\$ --	\$ --
Accounts payable and other	104,259	29,649	27,280	(7,708)	153,480
Total Current Liabilities	104,259	29,649	27,280	(7,708)	153,480
LONG-TERM DEBT					
	--	--	508,992	--	508,992
REVENUES PAYABLE					
	10,106	--	--	--	10,106
INTERCOMPANY PAYABLES					
	853,958	2,959	--	(856,917)	--
STOCKHOLDERS' EQUITY:					
Common Stock	10	3	733	(3)	743
Other	(173,189)	86,660	544,498	(178,506)	279,463
Total Stockholders' Equity	(173,179)	86,663	545,231	(178,509)	280,206
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY					
	\$ 795,144	\$ 119,271	\$ 1,081,503	\$(1,043,134)	\$ 952,784
	=====	=====	=====	=====	=====

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1998
(UNAUDITED)CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	COMPANY (PARENT)	ELIMINATIONS	CONSOLIDATED
FOR THE THREE MONTHS ENDED JUNE 30, 1998					
REVENUES:					
Oil and gas sales	\$ 74,592	\$ --	\$ --	\$ 1,047	\$ 75,639
Oil and gas marketing sales	11,350	49,561	--	(27,240)	33,671
Interest and other	542	129	23,948	(22,048)	2,571
Total Revenues	86,484	49,690	23,948	(48,241)	111,881
COSTS AND EXPENSES:					
Production expenses and taxes	17,294	--	--	--	17,294
Oil and gas marketing expenses	11,081	48,817	--	(26,193)	33,705
Impairment of oil and gas properties	216,000	--	--	--	216,000
Impairment of other assets	10,000	--	--	--	10,000
Oil and gas depreciation, depletion and amortization	43,900	--	--	--	43,900
Other depreciation and amortization	1,198	34	690	--	1,922
General and administrative	4,800	359	(25)	--	5,134
Interest	21,876	--	18,837	(22,048)	18,665
Total Costs and Expenses	326,149	49,210	19,502	(48,241)	346,620
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	(239,665)	480	4,446	--	(234,739)
INCOME TAX EXPENSE (BENEFIT)	--	--	--	--	--
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(239,665)	480	4,446	--	(234,739)
EXTRAORDINARY ITEM:					
Loss on early extinguishment of debt, net of applicable income tax	(2,164)	--	(11,170)	--	(13,334)
NET INCOME (LOSS)	\$ (241,829)	\$ 480	\$ (6,724)	\$ --	\$ (248,073)
FOR THE THREE MONTHS ENDED JUNE 30, 1997					
REVENUES:					
Oil and gas sales	\$ 48,572	\$ (3,579)	\$ --	\$ 361	\$ 45,354
Gas marketing sales	--	41,767	--	(18,024)	23,743
Interest and other	434	(19)	44,543	(39,528)	5,430
Total revenues	49,006	38,169	44,543	(57,191)	74,527
COSTS AND EXPENSES:					
Production expenses and taxes	5,336	(411)	--	--	4,925
Gas marketing expenses	--	41,508	--	(17,663)	23,845
Impairment of oil and gas properties	236,000	--	--	--	236,000
Oil and gas depreciation	43,651	(1,293)	--	--	42,358
Other depreciation and amortization	601	(11)	483	--	1,073
General and administrative	2,013	191	378	--	2,582
Interest	37,164	(217)	11,261	(39,528)	8,680
Total Costs and Expenses	324,765	39,767	12,122	(57,191)	319,463
INCOME (LOSS) BEFORE INCOME TAX	(275,759)	(1,598)	32,421	--	(244,936)
INCOME TAX EXPENSE (BENEFIT)	(28,714)	(1,408)	2,969	--	(27,153)
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(247,045)	(190)	29,452	--	(217,783)
EXTRAORDINARY ITEM:					
Loss on early extinguishment of debt, net of applicable income tax	--	--	--	--	--
NET INCOME (LOSS)	\$ (247,045)	\$ (190)	\$ 29,452	\$ --	\$ (217,783)

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1998
(UNAUDITED)CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	COMPANY (PARENT)	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----	-----
FOR THE SIX MONTHS ENDED JUNE 30, 1998					
REVENUES:					
Oil and gas sales	\$ 124,207	\$ --	\$ --	\$ 1,673	\$ 125,880
Oil and gas marketing sales	21,071	87,565	--	(48,441)	60,195
Interest and other	566	219	43,983	(41,973)	2,795
Total Revenues	145,844	87,784	43,983	(88,741)	188,870
COSTS AND EXPENSES:					
Production expenses and taxes	26,732	--	--	--	26,732
Oil and gas marketing expenses	20,617	86,117	--	(46,768)	59,966
Impairment of oil and gas properties	466,000	--	--	--	466,000
Impairment of other assets	10,000	--	--	--	10,000
Oil and gas depreciation, depletion and amortization	75,242	--	--	--	75,242
Other depreciation and amortization	2,061	54	1,187	--	3,302
General and administrative	8,874	633	7	--	9,514
Interest	41,099	--	30,227	(41,973)	29,353
Total Costs and Expenses	650,625	86,804	31,421	(88,741)	680,109
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM					
	(504,781)	980	12,562	--	(491,239)
INCOME TAX EXPENSE (BENEFIT)					
	--	--	--	--	--
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM					
	(504,781)	980	12,562	--	(491,239)
EXTRAORDINARY ITEM:					
Loss on early extinguishment of debt, net of applicable income tax	(2,164)	--	(11,170)	--	(13,334)
NET INCOME (LOSS)	\$ (506,945)	\$ 980	\$ 1,392	\$ --	\$ (504,573)
FOR THE SIX MONTHS ENDED JUNE 30, 1997					
REVENUES:					
Oil and gas sales	\$ 105,367	\$ (3,579)	\$ --	\$ 965	\$ 102,753
Gas marketing sales	--	87,335	--	(41,182)	46,153
Interest and other	611	178	47,446	(39,528)	8,707
Total revenues	105,978	83,934	47,446	(79,745)	157,613
COSTS AND EXPENSES:					
Production expenses and taxes	9,644	(411)	--	--	9,233
Gas marketing expenses	--	85,809	--	(40,217)	45,592
Impairment of oil and gas properties	236,000	--	--	--	236,000
Oil and gas depreciation	68,314	(1,293)	--	--	67,021
Other depreciation and amortization	1,109	9	828	--	1,946
General and administrative	3,770	426	867	--	5,063
Interest	37,336	(217)	14,743	(39,528)	12,334
Total Costs and Expenses	356,173	84,323	16,438	(79,745)	377,189
INCOME (LOSS) BEFORE INCOME TAX					
	(250,195)	(389)	31,008	--	(219,576)
INCOME TAX EXPENSE (BENEFIT)					
	(19,384)	(967)	2,453	--	(17,898)
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM					
	(230,811)	578	28,555	--	(201,678)
EXTRAORDINARY ITEM:					
Loss on early extinguishment of debt, net of applicable income tax	(179)	--	2	--	(177)
NET INCOME (LOSS)	\$ (230,990)	\$ 578	\$ 28,557	\$ --	\$ (201,855)

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1998
(UNAUDITED)CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
(\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	COMPANY (PARENT)	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----	-----
FOR THE SIX MONTHS ENDED JUNE 30, 1998					
CASH FLOWS FROM OPERATING					
ACTIVITIES:	\$ (609)	\$ (476)	\$ 20,805	\$ --	\$ 19,720
CASH FLOWS FROM INVESTING ACTIVITIES:					
Oil and gas properties	(472,879)	--	--	--	(472,879)
Proceeds from sale of assets	804	--	3,600	--	4,404
Repayment of long-term loans	2,000	--	--	--	2,000
Other additions	(3,448)	(258)	(1,477)	--	(5,183)
	-----	-----	-----	-----	-----
	(473,523)	(258)	2,123	--	(471,658)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from borrowings	--	--	658,750	--	658,750
Payments on borrowings	--	--	(474,166)	--	(474,166)
Cash received from issuance of preferred stock ..	--	--	222,781	--	222,781
Cash paid for purchase of treasury stock	--	--	(17,832)	--	(17,832)
Cash received from exercise of stock options ...	--	--	102	--	102
Other financing	(1,867)	--	--	--	(1,867)
Intercompany advances, net	465,229	(2,545)	(462,684)	--	--
	-----	-----	-----	-----	-----
	463,362	(2,545)	(73,049)	--	387,768
Net increase (decrease) in cash	(10,770)	(3,279)	(50,121)	--	(64,170)
Cash, beginning of period	(284)	13,694	110,450	--	123,860
	-----	-----	-----	-----	-----
Cash, end of period	\$ (11,054)	\$ 10,415	\$ 60,329	\$ --	\$ 59,690
	=====	=====	=====	=====	=====
FOR THE SIX MONTHS ENDED JUNE 30, 1997					
CASH FLOWS FROM OPERATING					
ACTIVITIES:	\$ 76,181	\$ (5,366)	\$ (28,627)	\$ --	\$ 42,188
CASH FLOWS FROM INVESTING ACTIVITIES:					
Oil and gas properties	(281,801)	92	--	--	(281,709)
Loans to third parties	--	--	(18,000)	--	(18,000)
Other investments	(2,751)	--	(8,000)	--	(10,751)
Other additions	(22,133)	(1,795)	(5,317)	--	(29,245)
	-----	-----	-----	-----	-----
	(306,685)	(1,703)	(31,317)	--	(339,705)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from long-term borrowings	--	--	292,626	--	292,626
Payments on borrowings	--	--	(12,750)	--	(12,750)
Cash received from exercise of stock options ...	--	--	1,114	--	1,114
Other financing	--	--	(195)	--	(195)
Intercompany advances, net	219,188	5,250	(224,438)	--	--
	-----	-----	-----	-----	-----
	219,188	5,250	56,357	--	280,795
Net increase (decrease) in cash and cash equivalents	(11,316)	(1,819)	(3,587)	--	(16,722)
Cash, beginning of period	4,782	6,182	129,775	--	140,739
	-----	-----	-----	-----	-----
Cash, end of period	\$ (6,534)	\$ 4,363	\$ 126,188	\$ --	\$ 124,017
	=====	=====	=====	=====	=====

PART I. FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RECENT EVENTS

On July 7, 1998 the Company's Board of Directors authorized management to explore alternatives to enhance shareholder value, including a possible sale or merger of the Company, based upon the Board's opinion that the market is substantially undervaluing the Company's assets and exploration potential. Also on July 7, 1998 Chesapeake's Board of Directors unanimously adopted a shareholder rights plan designed to deter coercive takeover tactics and to prevent a change of control from occurring without all shareholders receiving a fair price.

On April 22, 1998, the Company issued \$230 million (4.6 million shares) of its 7% Cumulative Convertible Preferred Stock, \$50 per share liquidation preference, and \$500 million of its 9.625% Series A Senior Notes due 2005. Net proceeds from these offerings were approximately \$711 million.

On April 27, 1998, Chesapeake acquired from Gothic Energy Corporation natural gas reserves in the Arkoma Basin of Oklahoma for \$20 million, and purchased \$39.5 million of Gothic 12% preferred stock (with liquidation value of \$50 million) and ten-year warrants to purchase 15% of Gothic's currently outstanding common stock for \$0.01 per share. As part of this transaction, for additional consideration of \$10.5 million, Chesapeake entered into a five-year drilling and acquisitions participation agreement with Gothic.

On April 27, 1998, Chesapeake acquired the British Columbia properties of Sunoma Acquisitions Ltd. for \$33 million.

On April 28, 1998, the Company acquired by merger the Mid-Continent operations of DLB Oil & Gas, Inc. ("DLB") for \$17.5 million in cash, 5,000,000 shares of the Company's common stock, and the assumption of \$90 million in outstanding debt and working capital obligations.

On April 30, 1998, the Company acquired 100% of the stock of MC Panhandle Corp., a wholly-owned subsidiary of Occidental Petroleum Corporation, by paying approximately \$95 million, net of working capital adjustments.

Effective April 30, 1998, the Company purchased all of its \$90 million aggregate principal amount 10.5% Senior Notes due 2002. The cost to acquire the 10.5% Senior Notes was approximately \$99 million. The early retirement of these notes resulted in an extraordinary charge of \$13.3 million during the Current Quarter.

RESULTS OF OPERATIONS

Three Months Ended June 30, 1998 vs. June 30, 1997

General. For the three months ended June 30, 1998 (the "Current Quarter"), the Company realized a net loss of \$248.1 million, or a loss of \$2.41 per common share. This compares to a net loss of \$217.8 million, or a loss of \$3.12 per common share, in the three months ended June 30, 1997 (the "Prior Quarter"). The loss in the Current Quarter was primarily caused by a \$216.0 million asset writedown recorded under the full-cost method of accounting, a \$10.0 million impairment related to certain of the Company's gas processing and transportation assets located in Louisiana, a \$13.3 million extraordinary loss on the early extinguishment of debt, and an \$8.7 million loss from recurring operations. The asset writedown was primarily caused by the acquisitions completed in April 1998 for consideration in excess of the present value (10% discount) of the future net revenues of the proved reserves acquired as of June 30, 1998, as well as the evaluation of certain leasehold, seismic and other exploration-related costs that were previously unevaluated, and by decreases in oil prices from March 31, 1998 to June 30, 1998. See " - Impairment of Oil and Gas Properties". The loss in the Prior Quarter was also caused by an asset writedown recorded under the full-cost method of accounting. The \$236 million asset writedown in the Prior Quarter was primarily caused by poor exploration results in the Company's drilling program, particularly in the Austin Chalk portion of the Louisiana Trend, combined with decreased oil and gas prices, and higher drilling and equipping costs as of June 30, 1997.

Oil and Gas Sales. During the Current Quarter, oil and gas sales increased significantly to \$75.6 million from \$45.4 million, an increase of \$30.2 million, or 67%. This increase resulted from significantly higher oil and gas production volumes, which increased from 21.3 billion cubic feet equivalent of natural gas ("bcfe") in the Prior Quarter to 37.2 bcfe in the Current Quarter, an increase of 15.9 bcfe, or 75%. The higher production volumes were primarily the result of the Company's acquisitions completed during the first four months of 1998. For the Current Quarter, the Company produced 1.8 million barrels of oil ("mbo") and 26.3 billion cubic feet of natural gas ("bcf"), compared to 0.9 mbo and 16.2 bcf in the Prior Quarter. Average oil prices realized were \$12.85 per barrel of oil in the Current Quarter compared to \$19.10 per barrel in the Prior Quarter, a decrease of 33%. Average gas prices realized were \$1.99 per thousand cubic feet ("mcf") in the Current Quarter compared to \$1.80 per mcf in the Prior Quarter, an increase of 11%.

For the Current Quarter, the Company realized an average price of \$2.03 per thousand cubic feet equivalent of natural gas ("mcfe"), compared to \$2.13 per mcfe in the Prior Quarter. The Company's hedging activities resulted in increased oil and gas revenues of \$2.2 million, or \$0.06 per mcfe, in the Current Quarter, compared to decreases in oil and gas revenues of \$63 thousand in the Prior Quarter.

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

OPERATING AREAS	FOR THE THREE MONTHS ENDED JUNE 30,			
	1998		1997	
	MMCFE	PERCENT	MMCFE	PERCENT
Mid-Continent	18,773	50%	4,098	19%
Gulf Coast	13,199	35	15,621	73
Canada	2,414	6	--	--
Other areas	2,845	9	1,567	8
Total	37,231	100%	21,286	100%

Natural gas production represented approximately 71% of the Company's total production volume on an equivalent basis in the Current Quarter, compared to 76% in the Prior Quarter. The Company anticipates natural gas will represent 70-75% of anticipated 1998 and 1999 production. As of June 30, 1998 natural gas represented approximately 84% of the Company's proved reserves of 1,260 bcfe.

Oil and Gas Marketing Sales. The Company realized \$33.7 million in oil and gas marketing sales for third parties in the Current Quarter, with corresponding oil and gas marketing expenses of \$33.7 million. This compares to sales of \$23.7 million and expenses of \$23.8 million in the Prior Quarter.

Interest and Other. Interest and other revenues for the Current Quarter were \$2.6 million compared to \$5.4 million in the Prior Quarter. The decrease was primarily caused by the Company maintaining lower invested cash balances resulting in reduced interest income, partially offset by a gain of \$0.6 million from the sale of the Company's interest in an oilfield service company, Peak USA Energy Services, Ltd., during the Current Quarter.

Production Expenses and Taxes. Production expenses increased to \$14.7 million in the Current Quarter, a \$10.7 million increase from \$4.0 million incurred in the Prior Quarter. On a production unit basis, production expenses were \$0.39 and \$0.19 per mcfe in the Current and Prior Quarters, respectively. The primary reason for the increase was production from properties acquired in late 1997 and 1998, which typically have higher unit-of-production expenses than the Company's historical production base. The Company anticipates production expenses will average \$0.35 to \$0.40 per mcfe for 1998.

Production taxes, which consist primarily of wellhead severance taxes, were \$2.6 million and \$0.9 million in the Current and Prior Quarters, respectively. This increase was primarily the result of increased production. On a per unit basis, production taxes were \$0.07 per mcfe in the Current Quarter compared to \$0.04 per mcfe in the Prior Quarter, the result of higher tax rates associated with production from properties acquired in late 1997 and 1998 compared to the Company's historical production base.

Impairment of Oil and Gas Properties. The Company utilizes the full-cost method to account for its investments 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, including the estimated future capital expenditures to develop proved undeveloped reserves, are depleted and charged to operations using the unit-of-production method based on the ratio of current production to proved oil and gas reserves as estimated by the Company's independent engineering consultants and Company engineers. Costs directly associated with the acquisition and evaluation of unproved properties are excluded from the amortization computation until it is determined whether or not proved reserves can be assigned to the property or whether impairment has occurred. To the extent that capitalized costs of oil and gas properties, net of accumulated depreciation, depletion and amortization and related deferred income taxes, exceed the discounted future net revenues (at 10%) of proved oil and gas properties, such excess costs are charged to operations.

The Company incurred an impairment of oil and gas properties charge of \$216 million in the Current Quarter, compared to an impairment charge of \$236 million in the Prior Quarter. The writedown in the Current Quarter was caused by a combination of several factors, including the acquisitions completed by the Company in April 1998. The most significant factor was the completion of the acquisition of DLB, which was accounted for using the purchase method. The purchase price, which was established in February 1998 when the terms of the acquisition were amended (based upon a Chesapeake common stock price of \$6 per share), was allocated primarily to DLB's evaluated oil and gas properties. Based upon reserve estimates as of June 30, 1998, the portion of the purchase price which was allocated to evaluated oil and gas properties exceeded the associated discounted future net revenues from DLB's estimated proved reserves by approximately \$70 million. In total, approximately \$116 million of the writedown was related to acquisitions completed during the Current Quarter. The evaluation of certain leasehold, seismic and other exploration-related costs that were previously unevaluated, together with decreases in oil prices at June 30, 1998, were the remaining contributing factors which led to the writedown in the Current Quarter. Future impairment charges, if any, will be dependent upon several factors, primarily oil and gas prices in effect at the date of determination.

Impairment of Other Assets. In the Current Quarter, the Company incurred an impairment charge of \$10 million related to certain of the Company's gas processing and transportation assets located in Louisiana. No such charge was recorded in the Prior Quarter.

Oil and Gas Depreciation, Depletion and Amortization. Depreciation, depletion and amortization of oil and gas properties ("DD&A") for the Current Quarter was \$43.9 million, compared to \$42.4 million in the Prior Quarter. This increase was caused by significantly increased production offset by a decrease in the DD&A rate per mcfe from \$1.99 to \$1.18 in the Prior and Current Quarters, respectively. The Company's DD&A rate is expected to decrease to approximately \$0.90-\$0.95 per mcfe for the remainder of 1998 as the result of the impairment charge, increased drilling in the Mid-Continent, and reduced drilling in Louisiana.

Depreciation and Amortization of Other Assets. Depreciation and amortization of other assets ("D&A") increased to \$1.9 million in the Current Quarter compared to \$1.1 million in the Prior Quarter. This increase in D&A was caused by increased investments in depreciable buildings and equipment incurred in conjunction with the acquisitions and increased amortization of debt issuance costs as a result of the issuance of Senior Notes in April 1998. The Company anticipates D&A expense throughout the remainder of 1998 to remain at approximately the same level incurred in the Current Quarter.

General and Administrative. General and administrative expenses ("G&A"), which are net of capitalized internal payroll and non-payroll expenses, were \$5.1 million in the Current Quarter compared to \$2.6 million in the Prior Quarter. This increase was primarily caused by increased employment levels associated with the Company's acquisitions. The Company capitalized \$1.1 million of internal costs in the Current Quarter directly related to the Company's oil and gas exploration and development efforts, compared to \$1.4 million in the Prior Quarter. The Company anticipates that G&A costs for the remainder of 1998 will not increase significantly.

Interest. Interest and other expense increased to \$18.7 million in the Current Quarter from \$8.7 million in the Prior Quarter. This increase was a result of additional interest expense in the Current Quarter on the \$500 million principal amount of Senior Notes issued on April 22, 1998. In addition to the interest expense reported, the Company capitalized \$1.6 million of interest during the Current Quarter compared to \$2.6 million capitalized in the Prior Quarter. The Company does not anticipate interest expense will increase significantly during the remainder of 1998.

Provision for Income Taxes. The Company recorded no income tax expense for the Current Quarter, compared to an income tax benefit of \$27.2 million in the Prior Quarter. At June 30, 1998, the Company had a net operating loss carryforward of approximately \$500 million for regular federal income taxes which will expire in future years beginning in 2007. Management believes that it cannot be demonstrated at this time that it is more likely than not that the deferred income tax assets, comprised primarily of the net operating loss carryforward, will be realizable in future years, and therefore a valuation allowance of \$280 million has been recorded. The Company does not expect to record any book income tax expense for the remainder of 1998 based on information available at this time.

Six Months Ended June 30, 1998 vs. June 30, 1997

General. For the six months ended June 30, 1998 (the "Current Period"), the Company realized a net loss of \$504.6 million, or a loss of \$5.50 per common share. This compares to a net loss of \$201.9 million, or a loss of \$2.87 per common share, in the six months ended June 30, 1997 (the "Prior Period"). The loss in the Current Period was primarily caused by a \$466 million asset writedown recorded under the full-cost method of accounting, a \$10 million impairment related to certain of the Company's gas processing and transportation assets located in Louisiana, a \$13.3 million extraordinary loss on the early extinguishment of debt, and a \$15.2 million loss from recurring operations. The asset writedown was partially caused by the acquisitions completed during the Current Period for consideration in excess of the present value (10% discount) of the future net revenues of the proved reserves acquired as of June 30, 1998. See "- Impairment of Oil and Gas Properties". The loss in the Prior Period was also caused by an asset writedown recorded under the full-cost method of accounting. The \$236 million asset writedown in the Prior Period was primarily caused by poor exploration results in the Company's drilling program, particularly in the Austin Chalk portion of the Louisiana Trend, combined with decreased oil and gas prices, and higher drilling and equipping costs as of June 30, 1997.

Oil and Gas Sales. During the Current Period, oil and gas sales increased significantly to \$125.9 million from \$102.8 million, an increase of \$23.1 million, or 22%. This increase resulted from significantly higher oil and gas

production volumes, which increased from 41.8 bcfe in the Prior Period to 60.2 bcfe in the Current Period, an increase of 18.4 bcfe, or 44%. The higher production volumes were primarily the result of the Company's acquisitions completed during the first four months of 1998. For the Current Period, the Company produced 3.0 mmbo and 42.2 bcf, compared to 1.7 mmbo and 31.9 bcf in the Prior Period. Average oil prices realized were \$13.63 per barrel in the Current Period compared to \$20.29 per barrel in the Prior Period, a decrease of 33%. Average gas prices realized were \$2.01 per mcf in the Current Period compared to \$2.17 per mcf in the Prior Period, a decrease of 7%.

For the Current Period, the Company realized an average price of \$2.09 per mcfe, compared to \$2.46 per mcfe in the Prior Period. The Company's hedging activities resulted in increased oil and gas revenues of \$4.0 million, or \$0.07 per mcfe, in the Current Period, compared to decreases in oil and gas revenues of \$289 thousand in the Prior Period.

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

OPERATING AREAS	FOR THE SIX MONTHS ENDED JUNE 30,			
	1998		1997	
	MMCFE	PERCENT	MMCFE	PERCENT
Mid-Continent	26,427	44%	8,340	20%
Gulf Coast	24,868	41	30,640	73
Canada	3,144	5	--	--
Other areas	5,755	10	2,854	7
Total	60,194	100%	41,834	100%

Natural gas production represented approximately 70% of the Company's total production volume on an equivalent basis in the Current Period, compared to 76% in the Prior Period.

Oil and Gas Marketing Sales. The Company realized \$60.2 million in oil and gas marketing sales for third parties in the Current Period, with corresponding oil and gas marketing expenses of \$60.0 million. This compares to sales of \$46.2 million and expenses of \$45.6 million in the Prior Period.

Interest and Other. Interest and other revenues for the Current Period were \$2.8 million compared to \$8.7 million in the Prior Period. The decrease was primarily caused by the Company maintaining lower invested cash balances resulting in reduced interest income, partially offset by a gain of \$0.6 million from the sale of the Company's interest in an oilfield service company, Peak USA Energy Services, Ltd., during the Current Period.

Production Expenses and Taxes. Production expenses increased to \$22.6 million in the Current Period, a \$15.4 million increase from \$7.2 million incurred in the Prior Period. On a production unit basis, production expenses were \$0.37 and \$0.17 per mcfe in the Current and Prior Periods, respectively. The primary reason for the increase was production from properties acquired in late 1997 and 1998, which typically have higher unit-of-production expenses than the Company's historical production base.

Production taxes, which consist primarily of wellhead severance taxes, were \$4.2 million and \$2.1 million in the Current and Prior Periods, respectively. This increase was primarily the result of increased production. On a per unit basis, production taxes were \$0.07 per mcfe in the Current Period compared to \$0.05 per mcfe in the Prior Period, the result of higher tax rates associated with production from properties acquired in late 1997 and 1998 compared to the Company's historical production base.

Impairment of Oil and Gas Properties. The Company utilizes the full-cost method to account for its investments 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, including the estimated future capital expenditures to develop proved undeveloped reserves, are depleted and charged to operations using the unit-of-production method based on the ratio of current

production to proved oil and gas reserves as estimated by the Company's independent engineering consultants and Company engineers. Costs directly associated with the acquisition and evaluation of unproved properties are excluded from the amortization computation until it is determined whether or not proved reserves can be assigned to the property or whether impairment has occurred. To the extent that capitalized costs of oil and gas properties, net of accumulated depreciation, depletion and amortization and related deferred income taxes, exceed the discounted future net revenues of proved oil and gas properties, such excess costs are charged to operations.

The Company incurred an impairment of oil and gas properties charge of \$466 million in the Current Period, compared to an impairment charge of \$236 million in the Prior Period. The writedown in the Current Period was caused by a combination of several factors, including the acquisitions completed by the Company during the Current Period, which were accounted for using the purchase method. The most significant factors were the acquisitions of Hugoton and DLB. Higher drilling and completion costs, the evaluation of certain leasehold, seismic and other exploration-related costs that were previously unevaluated, together with decreases in oil and gas prices from December 31, 1997 to June 30, 1998 were the remaining contributing factors which led to the writedown in the Current Period. The \$236 million writedown incurred in the Prior Period was due primarily to significant expenditures for acreage acquisition and drilling costs followed by unfavorable exploration and production results in Louisiana, together with increases in drilling and equipment costs and declines in oil and gas prices as of June 30, 1997. Future impairment charges, if any, will be dependent upon several factors, primarily oil and gas prices in effect at the date of determination.

Impairment of Other Assets. In the Current Period, the Company incurred an impairment charge of \$10 million related to certain of the Company's gas processing and transportation assets located in Louisiana. No such charge was recorded in the Prior Period.

Oil and Gas Depreciation, Depletion and Amortization. DD&A for the Current Period was \$75.2 million, compared to \$67.0 million in the Prior Period. This increase was caused by significantly increased production offset by a decrease in the DD&A rate per mcf from \$1.60 to \$1.25 in the Prior and Current Periods, respectively.

Depreciation and Amortization of Other Assets. D&A increased to \$3.3 million in the Current Period compared to \$1.9 million in the Prior Period. This increase in D&A was caused by increased investments in depreciable buildings and equipment incurred in conjunction with the acquisitions and increased amortization of debt issuance costs as a result of the issuance of Senior Notes in April 1998.

General and Administrative. G&A, which is net of capitalized internal payroll and non-payroll expenses, were \$9.5 million in the Current Period compared to \$5.1 million in the Prior Period. This increase was primarily caused by increased employment levels associated with the Company's acquisitions. The Company capitalized \$3.2 million of internal costs in the Current Period directly related to the Company's oil and gas exploration and development efforts, compared to \$2.8 million in the Prior Period.

Interest. Interest and other expense increased to \$29.4 million in the Current Period from \$12.3 million in the Prior Period. This increase was a result of additional interest expense in the Current Period on the \$500 million principal amount of Senior Notes issued on April 22, 1998. In addition to the interest expense reported, the Company capitalized \$3.8 million of interest during the Current Period compared to \$5.3 million capitalized in the Prior Period.

Provision for Income Taxes. The Company recorded no income tax expense for the Current Period, compared to an income tax benefit of \$17.9 million in the Prior Period.

RISK MANAGEMENT ACTIVITIES

Periodically the Company utilizes hedging strategies to hedge the price of a portion of its future oil and gas production. These strategies include (1) swap arrangements that establish an index-related price above which the Company pays the counterparty and below which the Company is paid by the counterparty, (2) the purchase of index-related puts that provide for a "floor" price below which the counterparty pays the Company the amount by

which the price of the commodity is below the contracted floor, (3) the sale of index-related calls that provide for a "ceiling" price above which the Company pays the counterparty the amount by which the price of the commodity is above the contracted ceiling, and (4) basis protection swaps, which are arrangements that guarantee the price differential of oil or gas from a specified delivery point or points. The Company only enters into commodity hedging transactions related to the Company's oil and gas production volumes or physical purchase or sale commitments of its oil and gas marketing subsidiaries. Results from commodity hedging transactions are reflected in oil and gas sales to the extent related to the Company's oil and gas production. Gains or losses on crude oil and natural gas hedging transactions are recognized as price adjustments in the months of related production. See Note 6 of the Notes to Consolidated Financial Statements.

As of June 30, 1998, the Company had the following natural gas swap arrangements for periods after June 1998:

MONTHS	MONTHLY VOLUME (MMBTU)	NYMEX-INDEX STRIKE PRICE (PER MMBTU)
-----	-----	-----
July 1998.....	6,510,000	\$2.356
August 1998.....	6,510,000	\$2.356
September 1998.....	6,300,000	\$2.356
October 1998.....	4,960,000	\$2.346

If the swap arrangements listed above had been settled on June 30, 1998, the Company would have received \$0.1 million. The Company has closed transactions for natural gas previously hedged for the period April 1999 through November 1999 and locked in net proceeds of \$3.2 million. If the open gas swap arrangements as of August 12, 1998 had been settled as of that date, the Company would have received \$8.9 million.

The Company has hedged a portion of its oil production from January 1999 through December 1999, which, if settled on June 30, 1998, would have resulted in a \$0.6 million reduction of revenue. The Company has closed transactions for crude oil previously hedged for the period from September 1998 through February 1999 and has locked in net proceeds of \$0.2 million. If the open oil swap arrangements as of August 12, 1998 had been settled as of that date, the Company would have paid \$0.7 million.

The Company also utilizes hedging strategies to manage fixed-interest rate exposure. Through the use of a swap arrangement, the Company believes that it can benefit from stable or falling interest rates and reduce its upfront interest expense. As of June 30, 1998, the Company's interest rate swap resulted in a \$0.2 million reduction of interest expense for the period May 1998 through July 1998, which settled on August 3, 1998.

LIQUIDITY AND CAPITAL RESOURCES

In April 1998, the Company completed an offering of \$230 million of 7% Cumulative Convertible Preferred Stock and \$500 million principal amount of 9.625% Senior Notes due 2005. The net proceeds of these offerings were approximately \$711 million, of which \$170 million was used to retire all of the Company's commercial bank debt, approximately \$99 million was used to retire all \$90 million principal amount of the Company's 10.5% Senior Notes due 2002, \$345 million was used to fund certain of the Company's acquisitions, with the balance of the net proceeds increasing the Company's working capital.

As of June 30, 1998, the Company had working capital of approximately \$31.4 million. The Company, as the result of significantly lower oil and gas prices and a change in the Company's strategy away from higher risk drilling and toward a more balanced acquisition and exploitation strategy, has continued to reduce its capital expenditure plans. The Company currently estimates that it will expend approximately \$90 million for drilling, seismic and leasehold expenditures for the six months ended December 31, 1998. The capital expenditure budget is largely discretionary, and can be adjusted by the Company based on operating results or other factors. The Company believes it has sufficient capital resources from anticipated cash flow from operations and working capital to fund the reduced drilling program for 1998.

On May 20, 1998, the Company's Board of directors approved the expenditure of up to \$25 million to purchase outstanding Company common stock. On July 14, 1998, the Board increased the authorized expenditure to \$30 million. As of August 11, 1998 the Company had purchased approximately 7.8 million shares of common stock for an aggregate amount of \$27.7 million pursuant to such authorization.

The Company has received a commitment from its primary commercial bank to obtain a secured revolving bank loan. As a result of the reduced capital expenditure plan, reduced acquisition program, and the potential sale of assets or merger of the Company, the Company has evaluated the size of the bank facility required. It is anticipated that a \$50 million facility will be completed by the end of August 1998 and will contain terms and conditions similar to the bank facilities the Company has had in the past, and also include collateral-based borrowing limitations. The primary purpose of the facility will be to provide standby liquidity for the Company.

The Company is evaluating certain asset divestiture opportunities separately from the larger strategic alternative initiative. Certain non-core properties, primarily non-operated or small working interest oil-prone properties may be sold. The Company anticipates these sales could result in cash proceeds of up to \$50 million over the next six months.

The Company's cash provided by operating activities before changes in current assets and liabilities decreased 24% to \$63.8 million during the Current Period compared to \$84.3 million during the Prior Period. The decrease was due primarily to reduced operating income as a result of a decrease in average oil and gas prices between periods.

Cash used in investing activities increased to \$471.7 million during the Current Period from \$339.7 million in the Prior Period. The Company completed several acquisitions requiring cash in the Current Period which totaled \$345.0 million, compared to none in the Prior Period, offset by a significant decrease in drilling activity and leasehold acquisitions in the Current Period compared to the Prior Period. During the Current Period the Company expended approximately \$112.0 million to initiate drilling on 91 gross (82.0 net) wells and invested approximately \$8.4 million in leasehold acquisitions. This compares to \$180.4 million to initiate drilling on 94 gross (59.9 net) wells and \$95.0 million to purchase leasehold in the Prior Period.

Cash provided by financing activities was \$387.8 million in the Current Period, compared to \$280.8 million in the Prior Period. During the Current Period, the Company retired \$465 million in debt consisting of \$85 million in debt assumed at the completion of the DLB acquisition, \$120 million in debt assumed at the completion of the Hugoton acquisition, \$90 million in Senior Notes, and \$170 million in borrowings made under its commercial bank credit facilities. The Company issued \$500 million in Senior Notes and \$230 million in Preferred Stock. During the Prior Period, the Company issued \$300 million in Senior Notes.

The Company is subject to certain routine legal proceedings, none of which are expected to have a material adverse effect upon the Company's financial condition or operations. The Company is also a defendant in other non-routine lawsuits, which are described in Note 3 of the notes to the accompanying financial statements. Also see Part II, Item 1 of this report. An adverse outcome in one or more of such suits could have a material effect on the Company, although management is unable to quantify the Company's exposure to liability. No provision for litigation liability has been recorded in the Company's financial statements.

FORWARD LOOKING STATEMENTS

This Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical facts included in this Form 10-Q, including without limitation statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding planned capital expenditures, expected oil and gas production, the Company's financial position, business strategy and other plans and objectives for future operations, capital expenditures plans, and expected future expenses are forward looking statements. Although the Company believes that the expectations reflected in such forward-looking statement are reasonable, it can give no assurance that such expectations will prove to have been correct. Factors that could cause actual results to differ materially from those expected by the Company, including, without limitation, factors discussed under Risk Factors in the Company's Form 10-K for the

period ended December 31, 1997 are concentration of unevaluated leasehold in Louisiana, impairment of asset value, need to replace reserves, substantial capital requirements, substantial indebtedness, fluctuations in the prices of oil and gas, uncertainties inherent in estimating quantities of oil and gas reserves and projecting future rates of production and timing of development expenditures, competition, operating risks, acquisition and integration of operation risks, restrictions imposed by lenders, liquidity and capital requirements, the effects of governmental and environmental regulation, patent and securities litigation and adverse changes in the market for the Company's oil and gas production. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to release publicly the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in the Company's business strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is subject to ordinary routine litigation incidental to its business. In addition, the Company is a defendant in two purported class actions alleging violations of federal and Oklahoma state securities laws. Also the Company is defending a patent infringement claim in another pending action. These matters are described in Item 3 of the Company's Transition Report on Form 10-K for the six-month period ended December 31, 1997, as updated by its Quarterly Report for the three months ended March 31, 1998. Subsequent developments are as follows:

On May 20, 1998, the U.S. District Court for the Northern District of Texas, Forth Worth Division entered two orders in Union Pacific Resources Company v. Chesapeake Energy Corporation, et al. granting the Company summary judgment on several issues. The court ruled as a matter of law that UPRC's tort claims for misappropriation of trade secrets and tortious interference with business relations are barred by the statute of limitations. Further, the court found that UPRC's claim for inducement to infringe its patent for a drillbit steering method is barred as to any wells drilled by the Company prior to August 14, 1995. The only issues remaining in the case involve the validity, potential infringement and value, if any, of UPRC's patent.

On July 30, 1998, plaintiffs in Yuan, et al. v. Bayard Drilling Technologies, Inc., et al. filed an Amended Class Action Complaint in the U.S. District Court for the Western District of Oklahoma alleging violations of the Securities Act of 1933 (the "Securities Act") and the Oklahoma Securities Act by the Company and others purportedly 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 the Company received net proceeds of \$90 million as a selling shareholder. Plaintiffs allege that the Company, a major customer of Bayard's drilling services and the owner of 30.1% of Bayard's common stock outstanding prior to the offering, was controlling person of Bayard. Plaintiffs assert that the Bayard prospectus contained material omissions and misstatements relating to (i) the Company's 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 the Company, (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. 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. No estimate of loss or range of estimate of loss, if any, can be made at this time.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On April 22, 1998, the Company sold 4,600,000 shares (the "Shares") of 7% Cumulative Convertible Preferred Stock having a liquidation preference of \$50 per share in a private placement to Donaldson, Lufkin & Jenrette Securities Corporation, Morgan Stanley & Co. Incorporated, Bear, Stearns & Co. Inc., Lehman Brothers Inc. and J.P. Morgan Securities Inc. (the "Initial Purchasers") pursuant to the exemption from registration provided by Section 4 (2) of the Securities Act. The Initial Purchasers resold the shares to qualified institutional buyers, as defined in, and in reliance on the exemption from registration provided by, Rule 144A under the Securities Act. The aggregate offering price for the Shares was \$230 million, and aggregate discounts and commissions were \$6.9 million.

Each of the Shares is convertible at the holders' option, exercisable at any time unless previously redeemed, into shares of Company common stock at a conversion price of \$6.95 per Share (equivalent to a conversion rate of approximately 7.1942 shares of common stock for each Share), subject to adjustment pursuant to antidilution provisions.

The Shares are redeemable, in whole or in part, at the Company's option at any time on or after May 1, 2001, initially at a price of \$52.45 per share and thereafter at prices declining to \$50 per share on or after May 1, 2008, plus in each case all accrued and unpaid dividends to the redemption date, which redemption price may be paid in

cash, by delivery of shares of Company common stock or through a combination thereof. Upon any Change of Control (as defined in the Certificate of Designation for the Shares), each holder of Shares will, in the event that the Market Value (as defined) at such time is less than the Conversion Price, have a one-time option to convert such holder's Shares into common stock at an adjusted Conversion Price equal to the greater of (x) the Market Value for the period ending on the Change of Control date and (y) 66 2/3% of the Market Value for the period ended April 16, 1998. In lieu of issuing shares of common stock for Shares surrendered for conversion upon a Change of Control, the Company may, at its option, make a cash payment equal to the Market Value of the common stock otherwise issuable determined for the period ending on the Change of Control date.

On July 7, 1998, the Company's Board of Directors declared a dividend distribution of one preferred stock purchase right (a "right") for each outstanding share of common stock, par value \$0.01 per share, of the Company. The distribution was paid on July 27, 1998 to the stockholders of record on that date. Each right entitles the registered holder thereof to purchase from the Company one one-thousandths of a share of Series A Junior Participating Preferred Stock, par value \$0.01 per share, of the Company at a price of \$25.00, subject to adjustment.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

- - Not applicable

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

The Company's annual meeting of shareholders was held on June 12, 1998. In the election of directors, Tom L. Ward received 78,929,789 votes for election, and 1,042,840 shares were withheld from voting. E.F. Heizer, Jr. received 78,924,095 votes for election, and 1,048,534 shares were withheld from voting. Frederick B. Whittemore received 78,928,222 shares for election, and 1,044,407 shares were withheld from voting.

ITEM 5. OTHER INFORMATION

Discretionary Voting of Proxies at Annual Meeting. The Company will exercise discretionary authority to vote proxies at the Company's next annual meeting of shareholders on any shareholder proposal for which the shareholder has not requested inclusion in the Company's proxy statement unless the shareholder notifies the Company of the proposal and the shareholder's intention to present the proposal from the floor of the meeting not later than April 19, 1999.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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

Exhibit No.

- 3.1 Registrant's Certificate of Incorporation. Incorporated herein by reference to Exhibit 3.1 to Registrant's registration statement on Form S-3 (No. 333-57235).
- 4.1.1 Second [Third] Supplemental Indenture, dated April 22, 1998, to Indenture dated as of March 15, 1997 among the Registrant, as issuer, its subsidiaries signatory thereto, as Subsidiary Guarantors, and United States Trust Company of New York, as Trustee, with respect to 7-7/8% Senior Notes due 2004. Incorporated herein by reference to Exhibit 4.1.1 to Registrant's registration statement on Form S-3 (No. 333-57235).
- 4.2.1 Second [Third] Supplemental Indenture, dated April 22, 1998, to Indenture dated as of March 15, 1997 among the Registrant, as issuer, its subsidiaries signatory thereto, as Subsidiary Guarantors, and United States Trust Company of New York, as Trustee, with respect to 8-1/2% Senior Notes due 2012. Incorporated herein by reference to Exhibit 4.2.1 to Registrant's registration statement on Form S-3 (No. 333-57235).
- 4.4.1 Third Supplemental Indenture, dated April 22, 1998, to Indenture dated as of April 1, 1996 among the Registrant, as issuer, its subsidiaries signatory thereto, as Subsidiary Guarantors, and United States Trust Company of New York, as Trustee, with respect to 9-1/8% Senior

Notes due 2006. Incorporated herein by reference to Exhibit 4.4.1 to Registrant's registration statement on Form S-3 (No. 333-57235).

- 10.4.1 Amended and Restated Loan Agreement dated July 13, 1998 between Chesapeake Energy Marketing, Inc. and Aubrey K. McClendon.
- 10.4.2 Amended and Restated Loan Agreement dated July 13, 1998 between Chesapeake Energy Marketing, Inc. and Tom L. Ward.
- 10.5 Rights Agreement dated July 15, 1998 between the Registrant and UMB Bank, N.A., as Rights Agent. Incorporated herein by reference to Exhibit 1 to Registrant's registration statement on Form 8-A filed July 16, 1998.
- 27 Financial Data Schedule

(b) Reports on Form 8-K

During the quarter ended June 30, 1998, the Company filed the following Current Reports on Form 8-K dated:

On April 17, 1998, the Company filed a current report on Form 8-K reporting under Item 5 that the Company issued a press release announcing agreements to acquire British Columbia properties; \$450 million senior notes and \$150 million perpetual convertible preferred stock offering; and transaction with Gothic Energy Corporation.

On April 17, 1998, the Company filed a current report on Form 8-K reporting under Item 5 that the Company issued a press release announcing tender offer to purchase all of the Company's \$90 million 10-1/2% Senior Notes due 2002.

On April 17, 1998, the Company filed a current report on Form 8-K reporting under Item 5 that the Company issued a press release announcing the price information on tender for outstanding Senior Notes.

On April 22, 1998, the Company filed a current report on Form 8-K reporting under Item 5 that the Company issued a press release announcing the completion of \$500 million Senior Notes and \$200 million Preferred Stock offerings.

On May 20, 1998, the Company filed a current report on Form 8-K reporting under Item 5 that the Company issued a press release announcing the acceptance of tendered 10-1/2% Senior Notes for payment.

On May 21, 1998, the Company filed a current report on Form 8-K reporting under Item 5 that the Company issued a press release announcing the Company's stock repurchase program.

On May 22, 1998, the Company filed a current report on Form 8-K reporting under Item 5 that the Company issued a press release announcing rulings in UPRC patent litigation.

On May 22, 1998, the Company filed a current report on Form 8-K reporting under Item 5 that the Company issued a press release announcing the first quarter 1998 results.

On May 26, 1998, the Company filed a current report on Form 8-K/A amending the Company's Form 8-K dated March 10, 1998 and filed on March 26, 1998. The Form 8-K/A included pro forma combined financial data of Hugoton Energy Corporation.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHESAPEAKE ENERGY CORPORATION

(Registrant)

August 14, 1998

/s/ Aubrey K. McClendon

Date

Aubrey K. McClendon
Chairman and
Chief Executive Officer

August 14, 1998

/s/ Marcus C. Rowland

Date

Marcus C. Rowland
Executive Vice President and
Chief Financial Officer

Index to Exhibits

Exhibit No. -----	Description -----	Page -----
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4.4.1	Third Supplemental Indenture, dated April 22, 1998, to Indenture dated as of April 1, 1996 among the Registrant, as issuer, its subsidiaries signatory thereto, as Subsidiary Guarantors, and United States Trust Company of New York, as Trustee, with respect to 9-1/8% Senior Notes due 2006. Incorporated herein by reference to Exhibit 4.4.1 to Registrant's registration statement on Form S-3 (No. 333-57235).	
10.4.1	Amended and Restated Loan Agreement dated July 13, 1998 between Chesapeake Energy Marketing, Inc. and Aubrey K. McClendon.	
10.4.2	Amended and Restated Loan Agreement dated July 13, 1998 between Chesapeake Energy Marketing, Inc. and Tom L. Ward.	
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27	Financial Data Schedule	

AMENDED AND RESTATED
LOAN AGREEMENT

between

AUBREY K. MCCLENDON, an individual

and

CHESAPEAKE ENERGY MARKETING, INC.

July 13, 1998

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AMENDED AND RESTATED
LOAN AGREEMENT

THIS AGREEMENT is entered into effective this 13th day of July, 1998, between AUBREY K. MCCLENDON, an individual (the "Borrower"), and CHESAPEAKE ENERGY MARKETING, INC., an Oklahoma corporation (the "Lender"), and amends and restates in its entirety that certain Loan Agreement dated July 7, 1998 between the Borrower and the Lender.

W I T N E S S E T H :

1. Loan Amount and Purpose. Subject to the terms and conditions of this Agreement, the Lender agrees to lend to the Borrower such amounts as the Borrower may from time to time request prior to June 1, 1999, but not to exceed principal advances in the aggregate amount of Five Million Dollars (\$5,000,000.00). The loan proceeds will be used solely to reduce the principal balances of existing loans to the Borrower from various margin lenders, including prepayments, scheduled repayments and margin calls by such lenders.

2. Note. The loans to be made hereunder will be evidenced by the Promissory Note (the "Note") in the form of Schedule "A" attached hereto as a part hereof and payable on the following terms:

2.1 Interest. Except as otherwise provided in the Note, the unpaid principal balance of the Note will bear interest at the per annum rate equal to nine percent (9%). Interest will be payable quarterly throughout the loan term commencing on September 30, 1998, and on the last day of each successive December, March, June and September thereafter until the Note is paid in full. All interest will be computed at a per diem charge for the actual number of days elapsed on the basis of a year consisting of three hundred sixty-five (365) days.

2.2 Payments. Each payment on the Note will be applied first to any obligations of the Borrower to the Lender other than principal and interest, then to accrued unpaid interest and the remainder to the principal balance of the Note. The entire unpaid principal balance of the Note, together with all accrued and unpaid interest thereon, will be due and payable on demand or on December 31, 1998, if no demand for payment is made on or prior to such date.

2.3 No Readvances. It is understood that the Note is not a revolving note and that on any prepayment of principal, such prepaid amount will not be readvanced.

3. Collateral Security. Payment of the Note will be secured by a first lien on and security interest in the following collateral security (the "Collateral"):

- 3.1 Initial Collateral. The property described at Schedule "B" attached hereto (the "Initial Collateral").
- 3.2 Additional Collateral. Additional property satisfactory to the Lender's loan committee.
- 3.3 Security Agreement. The Collateral will be subject to a Security Agreement in the form of Schedule "C" attached hereto as a part hereof (the "Security Agreement").

4. Conditions of Lending. The obligation of the Lender to perform this Agreement and to make the initial or any subsequent advance under the Note is subject to the following conditions precedent:

- 4.1 Loan Documents. This Agreement, the Note, the Security Agreement, financing statements, stock powers and related documents and all extensions, amendments and modifications thereof (collectively the "Loan Documents") will have been duly executed, acknowledged (where appropriate) by all parties thereto and delivered to the Lender, all in form and substance satisfactory to the Lender.
- 4.2 No Violation. The advance shall not cause the Lender to be in violation of any law, rule or regulation applicable to the Lender.
- 4.3 No Default. There will have occurred and be continuing no event of default as of the date of this Agreement or the date of any advances under the Note.
- 4.4 Initial Advance. An initial advance under the Note in the principal amount of \$4,108,399 has been made on satisfaction of the foregoing conditions and perfection of the Lender's first priority security interest in the Initial Collateral.
- 4.5 Subsequent Advances. Subsequent advances (in the maximum aggregate amount of \$891,601) will be made under the Note on satisfaction of the foregoing conditions and creation and perfection of a first priority security interest in favor of the Lender in Collateral satisfactory to the Lender's loan committee and compliance with the provisions of Section 6.2.

5. Representations and Warranties. In order to induce the Lender to enter into and perform the Loan Documents, the Borrower represents and warrants to the Lender as follows:

- 5.1 Capacity and Power. The Borrower has adequate capacity, power and legal right to enter into, execute, deliver and perform the terms of the

Loan Documents, to borrow money, to give security for borrowings and to consummate the transactions contemplated by the Loan Documents. The execution, delivery and performance of the Loan Documents by the Borrower will not violate any law, regulation, rule or any other agreement or instrument binding on the Borrower or the Collateral.

- 5.2 Full Disclosure. Neither this Agreement nor any statement or document referred to herein or delivered to the Lender by the Borrower or any other party on behalf of the Borrower contains any material untrue statement or omits to state a material fact necessary to make the statements herein or therein not misleading.

6. Covenants of the Borrower. Until the expiration of the Lender's obligation to advance funds under this Agreement and payment in full of the Note,

6.1 Financial Statements. The Borrower will furnish the Borrower's financial statements to the Lender on a quarterly basis, within thirty (30) days after the end of each calendar quarter, commencing with the calendar quarter ending June 30, 1998 and such additional financial statements as the Lender might reasonably request.

6.2 Collateral Ratio. Upon any advance under the Note, the ratio of the value of the Collateral, as reasonably determined by the Lender, to the outstanding principal then owing under the Note after any such advance will be 1.5 to 1 and will satisfy the margin lending requirements of Regulation U.

6.3 Mandatory Prepayments. The Borrower will promptly apply any cash proceeds, distributions or principal payments (other than scheduled dividends or interest payments) received in respect of the Collateral as prepayments of principal amounts owing under the Note.

7. Default. The Lender may terminate all of the Lender's obligations under the Loan Documents and may declare the Note and all other indebtedness and obligations of the Borrower owing to the Lender to be due and payable if any of the following events of default occur and have not been cured or waived by the Lender:

- 7.1 Nonpayment of Note. Default in payment when due of any interest on or principal of the Note; or
- 7.2 Other Nonpayment. Default in the payment of any amount payable to the Lender under the terms of the Loan Documents or any agreement in connection therewith; or
- 7.3 Breach of Agreement. Default in the performance or observance of any covenant contained in the Loan Documents, any other agreement between

the Borrower and the Lender or under the terms of any other instrument delivered to the Lender in connection with this Agreement; or

- 7.4 Representations and Warranties. Any representation, statement, certificate, schedule or report made or furnished to the Lender on behalf of the Borrower proves to be false or erroneous in any material respect or any warranty ceases to be complied with in any material respect; or
- 7.5 Insolvency. The Borrower admits the inability to pay the Borrower's debts as such debts mature; or
- 7.6 Bankruptcy. The institution of bankruptcy, reorganization, readjustment of debt, liquidation or receivership proceedings by or against the Borrower under the Bankruptcy Code, as amended, or any part thereof, or under any other laws, whether state or federal, for the relief of debtors, now or hereafter existing; or
- 7.7 Receivership. The appointment of a receiver or trustee for the Borrower or for any substantial part of the Collateral; or
- 7.8 Judgment. Entry by any court of a final judgment against the Borrower or an attachment of any part of the Collateral by any means, including, without limitation, levy, distraint, replevin or self-help, which is not discharged or stayed within ten (10) days thereof.

8. Remedies. On demand, or on the occurrence of an event of default the Lender may, at the Lender's option:

- 8.1 Termination. Terminate the Lender's obligations hereunder, including the obligation to make any advances under the Note.
- 8.2 Acceleration of Note. Declare the Note and all sums due pursuant to the Loan Documents to be immediately due and payable, whereupon the same will become forthwith due and payable, and the Lender will be entitled to proceed to selectively and successively enforce the Lender's rights under the Loan Documents or any other instruments delivered to the Lender in connection with the Loan Documents; provided that if any event of default specified in Sections 7.5, 7.6 or 7.7 shall occur, all amounts owing under the Loan Documents, including the Note, shall thereafter become due and payable concurrently therewith, and the Lender's obligations hereunder shall automatically terminate, without presentment, demand, protest, notice of default, notice of acceleration or intention to accelerate or other notice of any kind, all of which the Borrower hereby expressly waives.

- 8.3 Selective Enforcement. In the event the Lender elects to selectively and successively enforce the Lender's rights under any one or more of the instruments securing payment of the indebtedness evidenced by the Note, such action will not be deemed a waiver or discharge of any other lien or encumbrance securing payment of any of the indebtedness evidenced by the Note until such time as the Lender has been paid in full all sums advanced by the Lender plus all accrued interest thereon.
- 8.4 Waiver of Default. The Lender may, by an instrument or instruments in writing, signed by the Lender, waive any default which has occurred and any of the consequences of such default, and, in such event, the Lender and the Borrower will be restored to their respective former positions, rights and obligations hereunder. Any default so waived will, for all purposes of this Agreement, be deemed to have been cured and not to be continuing, but no such waiver will extend to any subsequent or other default or impair any consequence of such subsequent or other default.

9. Miscellaneous. It is further agreed as follows:

- 9.1 Expenses. All reasonable out-of-pocket expenses incurred by the Lender in connection with the enforcement of the Loan Documents including, without limitation, reasonable attorneys' fees, will be paid by the Borrower. In addition, the Borrower will pay all recording fees and all other costs and fees incurred in connection with the loan or the Loan Documents.
- 9.2 Notices. All notices, requests and demands will be served by hand delivery, telefacsimile or by registered or certified mail, with return receipt requested, as follows:
- To the Borrower: Mr. Aubrey K. McClendon
6100 North Western
Oklahoma City, Oklahoma 73118
Fax No. (405) 848-8588
- To the Lender: Chesapeake Energy Marketing, Inc.
6100 North Western
Oklahoma City, Oklahoma 73118
Attention: Mr. Marcus C. Rowland
Fax No. (405) 879-9580

or at such other address as either party designates for such purpose in a written notice to the other party. Notice will be deemed to have been given on the date actually received in the event of personal or

telefacsimile delivery or on the date two (2) days after notice is deposited in the mail, properly addressed, postage prepaid.

- 9.3 Severability. In the event any one or more of the provisions contained in any of the Loan Documents is determined to be invalid, illegal or unenforceable in any respect in any jurisdiction, the validity, legality and enforceability of such provision or provisions will not in any way be affected or impaired thereby in any other jurisdiction nor will the validity, legality and enforceability of the remaining provisions contained in the Loan Documents in any way be affected or impaired thereby.
- 9.4 Construction and Venue. This Agreement and the documents issued hereunder are executed and delivered as an incident to a lending transaction negotiated and to be performed in Oklahoma County, Oklahoma. The Loan Documents are intended to constitute a contract made under the laws of the State of Oklahoma and to be construed in accordance with the internal laws of the State of Oklahoma. The descriptive headings of the paragraphs of this Agreement are for convenience only and are not to be used in the construction of the content of this Agreement. All actions relating to or arising under the Loan Documents will be instituted in the courts of the State of Oklahoma sitting in Oklahoma County, Oklahoma, or the United States District Court for the Western District of Oklahoma, and the Borrower irrevocably and unconditionally waives any objection to the venue in such court and any claim that any action has been brought in an inconvenient forum.
- 9.5 No Waiver. No advance of loan proceeds under the Loan Documents will constitute a waiver of any of the Borrower's representations, warranties, conditions or covenants under the Loan Documents.
- 9.6 Counterparts. This Agreement may be executed via telefacsimile in two or more counterparts and it will not be necessary that the signatures of all parties hereto be contained on any one counterpart hereof. Each counterpart will be deemed an original, but all counterparts together will constitute one and the same instrument.

IN WITNESS WHEREOF, the Borrower and the Lender have executed this Agreement effective on the date first above written.

/s/ Aubrey K. McClendon

AUBREY K. MCCLENDON, individually

(the "Borrower")

CHESAPEAKE ENERGY MARKETING, INC., an
Oklahoma corporation

By /s/ Marcus C. Rowland

Marcus C. Rowland, Vice President
and Chief Financial Officer

(the "Lender")

SCHEDULE A

PROMISSORY NOTE

\$5,000,000.00

Oklahoma City, Oklahoma
July 13, 1998

FOR VALUE RECEIVED, the undersigned, AUBREY K. McCLENDON, an individual (the "Borrower"), promises to pay to the order of CHESAPEAKE ENERGY MARKETING, INC., an Oklahoma corporation (the "Lender"), at 6100 North Western, Oklahoma City, Oklahoma 73118 or at such other place as may be designated in writing by the holder of this Note, the principal sum of FIVE MILLION DOLLARS (\$5,000,000.00), or so much as may be disbursed hereunder, as follows:

Prior to default, the unpaid principal balance of this Note will bear interest at a per annum rate equal to nine percent (9%). Interest will be payable quarterly throughout the loan term commencing on September 30, 1998, and on the last day of each successive December, March, June and September thereafter until this Note is paid in full. All interest will be computed at a per diem charge for the actual number of days elapsed on the basis of a year consisting of three hundred sixty five (365) days.

All payments will be applied first to any obligations of the Borrower to the Lender other than principal and interest, then to accrued unpaid interest on this Note and the remainder to the principal balance of this Note. The entire unpaid principal balance of this Note, together with all accrued and unpaid interest thereon, will be due and payable on demand or on December 31, 1998 if no demand for payment is made on or prior to such date.

The Borrower will promptly apply any cash proceeds, distributions or principal payments (other than scheduled dividends or interest payments) received in respect of the Collateral as prepayments of the principal amount owing under the Note.

Except as otherwise defined herein all terms defined in the Amended and Restated Loan Agreement of even date herewith between the Borrower and the Lender (the "Loan Agreement") will have the same meanings herein as therein. This Note amends and restates that certain Promissory Note dated July 7, 1998 in the principal amount of \$5,000,000.00 made by the Borrower in favor of the Lender, and all Collateral securing such Promissory Note will remain in full force and effect. Any sum not paid when due will bear interest at fifteen percent (15%) per annum and will be paid at the time of and as a condition precedent to the curing of any default under the Loan Documents. During the existence of any such default, the holder of this Note may apply payments received on any amount due hereunder as the holder may determine. The Borrower will have the right to prepay this Note in whole or in part at any time without penalty.

Advances and payments hereunder may, at the option of the Lender, be recorded on this Note and shall be prima facie evidence of such advances, payments and unpaid balance of this Note. All advances hereunder shall be made by the Lender in accordance with the terms of the Loan Agreement.

The Borrower agrees that if, and as often as, this Note is placed in the hands of an attorney for collection or to defend or enforce any of the holder's rights hereunder or under any instrument securing payment of the same, the Borrower will pay to such holder its reasonable attorneys' fees and all expenses incurred in connection therewith, whether or not an action shall be instituted to enforce this Note.

This Note is given by the Borrower and accepted by the holder hereof pursuant to a lending transaction contracted, consummated and to be performed in Oklahoma City, Oklahoma County, Oklahoma, and this Note is to be construed according to the laws of the State of Oklahoma.

This Note is issued subject to the terms of the Loan Agreement and is secured by the Loan Documents. On demand or on the breach of any provision of this Note or any provision of the Loan Documents at the option of the holder, the entire unpaid indebtedness evidenced by this Note will become due, payable and collectible then or thereafter as the holder may elect, regardless of the date of maturity of this Note. Notice of the exercise of such option is hereby expressly waived. Failure by the holder to exercise such option will not constitute a waiver of the right to exercise the same in the event of any subsequent default.

The failure of the Lender to exercise any of the remedies or options set forth in this Note, or in any instrument securing payment hereof, upon the occurrence of one or more events of default, shall not constitute a waiver of the right to exercise the same or any other remedy at any subsequent time in respect to the same or any other event of default. The acceptance by the Lender of any payment which is less than the total of all amounts due and payable at the time of such payment shall not constitute a waiver of the right to exercise any of the foregoing remedies or options at that time or any subsequent time, or nullify any prior exercise of such remedy or option, without the express consent of the Lender.

Time is of the essence of each obligation of the Borrower hereunder.

For the purposes of computing interest under this Note, payments of all or any portion of the principal sum owing under this Note will not be deemed to have been made until such principal payments are received by the Lender in collected funds.

The makers, endorsers, sureties, guarantors and all other persons who may become liable for all or any part of this obligation severally waive presentment for payment, protest, demand and notice of nonpayment. Said parties consent to any extension of time (whether one or more) of payment hereof, the modification (whether one or more) of payment hereof, release or substitution of all or part of the security for the payment hereof or release of any party liable for payment of this obligation. Any such extension or release may be made without notice to any such party and without discharging such party's liability hereunder.

IN WITNESS WHEREOF, the Borrower has executed this instrument effective the date first above written.

AUBREY K. McCLENDON, individually
(the "Borrower")

SCHEDULE C

AMENDED AND RESTATED
SECURITY AGREEMENT

THIS AMENDED AND RESTATED SECURITY AGREEMENT is executed effective the 13th day of July, 1998, between AUBREY K. McCLENDON, an individual (the "Debtor"), AUBREY K. McCLENDON, Trustee of the Aubrey K. McClendon 1992 Revocable Trust, CHESAPEAKE INVESTMENTS, AN OKLAHOMA LIMITED PARTNERSHIP (the Debtor, Aubrey K. McClendon, Trustee, and Chesapeake Investments, an Oklahoma Limited Partnership, are herein collectively referred to as "Pledgor"), each having a notice address at 6100 North Western, Oklahoma City, Oklahoma 73118, and CHESAPEAKE ENERGY MARKETING, INC., an Oklahoma corporation having a notice address at 6100 North Western, Oklahoma City, Oklahoma 73118 (the "Secured Party"). This Agreement amends and restates in its entirety that certain Security Agreement dated July 7, 1998 between the Debtor and the Secured Party, and all collateral security subject to such Security Agreement continues in full force and effect.

W I T N E S S E T H :

WHEREAS, Aubrey K. McClendon is liable to the Secured Party under that certain Promissory Note of even date herewith in the original face amount of FIVE MILLION DOLLARS (\$5,000,000.00) (the "Note") in connection with that certain Amended and Restated Loan Agreement (the "Loan Agreement") of even date herewith between the Debtor and the Secured Party; and

WHEREAS, as a material condition precedent to the Secured Party's entering into the Loan Agreement, the Pledgor has agreed to secure payment of the Note and all other obligations of the Debtor to the Secured Party by granting the Secured Party a lien, security interest and pledge covering certain assets of the Pledgor.

NOW, THEREFORE, (i) in order to comply with the terms and conditions of the Loan Agreement; (ii) for and in consideration of the premises and the agreements herein contained; and (iii) for other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged, the Pledgor hereby agrees with the Secured Party as follows:

1. Definitions. Unless otherwise defined herein, all terms which are defined in the Loan Agreement will have the same meanings herein as therein unless the context otherwise requires, and all terms used herein which are defined in the Oklahoma Uniform Commercial Code ("UCC") will have the same meanings herein unless the context otherwise requires.

2. Security Interest. As collateral security for the Secured Indebtedness, the Pledgor hereby grants to the Secured Party a security interest in, an assignment of, a general lien upon, and a right of set-off against, the following described property (the "Property"):

- 2.1 all of the Pledgor's right, title and interest in and to the financial assets, securities, investment property and other property described at Exhibit A attached hereto, and all certificates representing such property, and all tangible and intangible rights in connection therewith and all accounts, contract rights and general intangibles relating thereto (the "Assets");
- 2.2 any additional assets from time to time delivered to or deposited with the Secured Party as security for the obligations of the Debtor to the Secured Party or otherwise pursuant to the terms of this Agreement; and
- 2.3 all cash, securities, dividends (whether cash, property or stock), preferential, conversion or other rights attaching to the Assets, all distributions or payments in partial or complete liquidation or redemption or as a result of reclassifications, readjustments, reorganizations or changes in the capital structure of the issuer of the Assets and all rights and privileges pertaining thereto and all subscriptions, warrants, options and any other rights issued by the issuer of the Assets or any other person upon or in connection with the Assets and all other proceeds, products, additions to, replacements of, substitutions for and accessions of any and all Property described in this paragraph 2.

3. Secured Indebtedness. The security interest granted hereby in the Property is given to secure the Debtor's payment of: (a) the Note together with interest thereon; (b) any and all other or additional obligations of the Debtor to the Secured Party; (c) all extensions, renewals, amendments, modifications, substitutions and changes in form to the Note; (d) all costs and expenses incurred in connection with the collection of the Note and any other obligations of the Debtor to the Secured Party and enforcement of the Loan Documents and the Secured Party's rights under this Agreement and all other Loan Documents, including attorneys' fees and expenses; (e) all advances made by the Secured Party to protect the security hereof, including advances made for or on account of levies, insurance, repairs, taxes and for maintenance or recovery of the Property, together with interest thereon at the rate specified in the Note; (f) any and all other indebtedness, liabilities and obligations of the Debtor to the Secured Party whether now owing or hereafter incurred; and (g) performance of the agreements herein set forth (the foregoing items (a) through (g) are collectively referred to herein as the "Secured Indebtedness").

4. Debtors' Representations and Covenants. The Pledgor hereby warrants, represents and agrees as follows:

- 4.1 Principal Place of Business. The Pledgor's principal place of business is 6100 North Western, Oklahoma City, Oklahoma 73118.
- 4.2 Title. The Pledgor has absolute title to the Property free and clear of all liens, encumbrances, negative pledges and security interests except the

- security interest hereby granted to the Secured Party and such other rights, if any, of the Secured Party, and the Pledgor warrants and will defend the same unto the Secured Party against the claims and demands of all other persons and parties whomsoever.
- 4.3 Transfers. Without the prior written consent of the Secured Party, the Pledgor agrees that the Debtor will not sell, exchange or in any manner dispose of any of the Property or any interest therein nor permit any other lien, encumbrance or security interest to attach thereto except those contemplated herein.
- 4.4 Secured Party's Security Interest. This Agreement creates a valid and binding security interest in the Property securing the Secured Indebtedness. There are no consents required in connection with the grant by the Pledgor of the security interests in the Property. The Pledgor has good right and lawful authority to pledge the Property in the manner hereby done or contemplated. All filings and other actions necessary or appropriate to perfect or protect such security interest will be or have been duly taken. No further or subsequent filing, recording, registration or other public notice of such security interest is necessary in any office or jurisdiction in order to perfect such security interest or to continue, preserve or protect such security interest except for continuation statements.
- 4.5 Inspection. The Secured Party may from time to time, upon request, inspect all of the Pledgor's records concerning any of the Property.
- 4.6 Further Assurances. The Pledgor will from time to time sign, execute, deliver and file, alone or with the Secured Party, any financing statements, stock powers, notices to issuers of securities constituting collateral security, security agreement or other documents; procure any instruments or documents as may be reasonably requested by the Secured Party; and take all further action that may be necessary or desirable, or that the Secured Party may request, to confirm, perfect, preserve and protect the security interests intended to be granted hereby, and in addition, the Pledgor hereby authorizes the Secured Party to execute and deliver on behalf of the Pledgor and file such financing statements, stock powers, security agreements and other documents without the signature of the Pledgor either in the Secured Party's name or in the name of the Pledgor and as agent and attorney-in-fact for the Pledgor. The Pledgor shall do all such additional and further acts or things, give such assurances and execute such documents or instruments as the Secured Party requires to vest more completely in and assure to the Secured Party its rights under the Loan Documents.

- 4.7 Filing Reproductions. At the option of the Secured Party, a carbon, photographic or other reproduction of this Agreement or of a financing statement covering the Property shall be sufficient as a financing statement and may be filed as a financing statement.
- 4.8 Financing Statement Filings; Notifications. The Pledgor will immediately notify the Secured Party of any condition or event that may change the proper location for the filing of any financing statements or other public notice or recordings for the purpose of perfecting a security interest in the Property. Without limiting the generality of the foregoing, the Pledgor will immediately notify the Secured Party of any change in the Pledgor's name or identity. In any notice furnished pursuant to this paragraph 4.8, the Pledgor will expressly state that the notice is required by this Agreement and contains facts that will or may require additional filings of financing statements or other notices for the purpose of continuing perfection of the Secured Party's security interest in the Property.
- 4.9 Possession. Physical possession of the certificates representing or evidencing the Property shall be delivered to and held by Secured Party.

5. Secured Party's Expenditures. If the Pledgor fails to make any expenditure or pay any sum necessary to discharge any lien, encumbrance, levy, security interest or other charge on the Property as required hereby, the Secured Party may but shall not be required to make any expenditure for such purpose or purposes and all sums so expended shall be payable on demand, shall bear interest at the rate specified in the Note and all such sums and interest will additionally be secured hereby. The Pledgor will pay all costs of filing any financing, continuation or termination statements with respect to the security interest granted hereby in the Property.

6. Power of Attorney. The Secured Party is hereby fully authorized and empowered (without the necessity of any further consent or authorization from the Pledgor) and the right is expressly granted to the Secured Party, and the Pledgor hereby constitutes, appoints and makes the Secured Party as the Pledgor's true and lawful attorney-in-fact and agent for the Pledgor and in the Pledgor's name, place and stead with full power of substitution, in the Secured Party's name or the Pledgor's name or otherwise, for Secured Party's sole use and benefit, but at the Pledgor's cost and expense, to exercise, without notice, all or any of the following powers at any time with respect to all or any of the Property after the occurrence of any default under this Agreement or any of the other Loan Documents which has not been timely cured: (a) all voting rights, all other corporate rights and all conversion, exchange, subscription or other rights pertaining to the Property, whether or not the Property has been registered in the Secured Party's name and this Agreement will constitute the Pledgor's proxy to the Secured Party for such purpose; (b) to demand, sue for, collect, receive and give acquittance for any and all monies due or to become due by virtue thereof and otherwise deal with proceeds; (c) to receive, take, endorse, assign and deliver any and all checks, notes, drafts, documents and other

negotiable and non-negotiable instruments and chattel paper taken or received by the Secured Party in connection therewith; (d) to settle, compromise, compound, prosecute or defend any action or proceeding with respect thereto; (e) to sell, transfer, assign or otherwise deal in or with the same or the proceeds or avails thereof as fully and effectively as if the Secured Party were the absolute owner thereof; and (f) to extend the time of payment of any or all thereof and to grant waivers and make any allowance or other adjustment with reference thereto; provided, however, the Secured Party shall be under no obligation or duty to exercise any of the powers hereby conferred upon it and shall be without liability for any act or failure to act in connection with the collection of, or the preservation of any rights under, any Property.

7. Default; Remedies. On the occurrence of any event of default under any of the Loan Documents or if the Pledgor fails to keep, observe, comply with and perform all of the obligations and undertakings under this Agreement or any of the other Loan Documents or fails to pay any principal or interest on the Note when due, then, and in any such event, the Secured Party may, at its option and without notice to any party, declare all or any portion of the Secured Indebtedness to be immediately due and payable and may proceed to enforce payment of the same, to exercise any or all rights and remedies provided herein, in the other Loan Documents, and by the UCC and otherwise available at law or in equity. All remedies hereunder are cumulative, and any indulgence or waiver by the Secured Party shall not be construed as an abandonment of any other right hereunder or of the power to enforce the same or another right at a later time. Whether the Secured Party elects to exercise any other rights or remedies under this Agreement or applicable law, the Secured Party will be entitled to have a receiver appointed to take possession of the Property without notice, which notice the Pledgor hereby waives, notwithstanding anything contained in this Agreement or any law heretofore or hereafter enacted.

8. Secured Party's Duties. The powers conferred upon the Secured Party by this Agreement are solely to protect its interest in the Property and will not impose any duty upon the Secured Party to exercise any such powers. The Secured Party shall be under no duty whatsoever to make or give any presentment, demand for performance, notice of nonperformance, protest, notice of protest, notice of dishonor, or other notice or demand in connection with any of the Property or the Secured Indebtedness, or to take any steps necessary to preserve any rights against prior parties. The Secured Party shall not be liable for failure to collect or realize upon any or all of the Secured Indebtedness or Property, or for any delay in so doing, nor shall the Secured Party be under any duty to take any action whatsoever with regard thereto.

9. Continuing Agreement. This is a continuing Agreement and the grant of a security interest hereunder shall remain in full force and effect and all the rights, powers and remedies of the Secured Party hereunder shall continue to exist until all of the Secured Indebtedness is paid in full as the same becomes due and payable and until the Secured Party, upon request of the Pledgor, has executed a written termination statement, reassigned to the Pledgor, without recourse, the Property and all rights conveyed hereby and returned possession of any Property in the Secured Party's possession to the Pledgor.

10. Preservation of Liability. Neither this Agreement nor the exercise by the Secured Party of (or the failure to so exercise) any right, power or remedy conferred herein or by law shall be construed as relieving any person liable on the Secured Indebtedness from liability on the Secured Indebtedness and for any deficiency thereon.

11. Waivers. It is the intention of the Pledgor and Secured Party that the validity of this Security Agreement shall not be impaired by any defenses given to sureties or guarantors at law or in equity or by virtue of the fact that the Note was executed by the Debtor rather than each Pledgor. Nonexercise by the Secured Party of any right or remedy of the Secured Party provided in the Note, Loan Agreement or other Loan Documents shall in no manner affect the validity or enforceability of this Agreement or give any Pledgor any recourse against the Secured Party.

11.1 Certain Actions. Each Pledgor agrees that from time to time, without affecting the Pledgor's obligations hereunder or the Secured Party's rights in the Property, and without giving notice to or obtaining the consent of any Pledgor, and without liability on the Secured Party's part, the Secured Party may, at its option, (i) extend the time for payment of the Note or any interest thereon, (ii) release anyone liable under the Loan Agreement or Note; (iii) renew, rearrange, consolidate or modify the Note; (iv) take or release any security or additional security for the Note or Loan Agreement; (v) increase or decrease the rate of interest payable on the Note; or (vi) grant any other leniencies, indulgences, or compromises under the Loan Agreement or Note as the Secured Party may deem appropriate or desirable.

11.2 Certain Defenses. Each Pledgor hereby waives diligence, presentment, demand, notice of demand, notice of nonpayment or dishonor, protest, notice of protest and all other notices of any kind whatsoever as to the Note, or any renewal, extension, rearrangement, consolidation or modification thereof. Each Pledgor agrees that it shall not be necessary for the Secured Party, in order to enforce this Agreement, first, (i) to exhaust its remedies against the Debtor, any guarantor or others liable on the obligations evidenced by the Note; or (ii) to enforce the Secured Party's rights in any other security given to secure the Note. Each Pledgor further waives, to the fullest extent permitted by law, (i) all defenses given to sureties or guarantors at law or in equity other than the actual payment of the sums evidenced by the Note and secured by this Agreement and the performance of the other covenants and agreements contained herein and (ii) any defense it may have to any liability hereunder based on any asserted lack of diligence, delay in prosecuting any action with regard to the Note, or any impairment of any other security for payment of the Note.

11.3 Additional Waivers. The validity of this Agreement as to the indebtedness secured by the Note shall not be affected in any manner whatsoever on account of any or all of the following: (i) incapacity, death, disability, dissolution or termination of any person or entity; (ii) the failure of the Secured Party to file or enforce a claim against the estate (either in administration, bankruptcy or other proceedings) of the Debtor, any Pledgor or any other person or entity; (iii) any defenses, setoffs or counterclaims which may be available to the Debtor or any other person or entity; (iv) any modifications, extensions, amendments, consents, releases

or waivers with respect to the Note or any other instrument now or hereafter securing the payment of the Note, or any guaranty of the Note; (v) any failure of the Secured Party to give any notice to any Pledgor of any default under any other instrument securing payment of the Note; or (vi) any impairment, modification, change, release or limitation of the liability of, or stay of actions or lien enforcement proceedings against, the Debtor, its property or its estate in bankruptcy resulting from the operation of any present or future federal or state statute relating to bankruptcy or insolvency or from the decision of any court relating thereto. The Secured Party shall not be required to pursue any other remedies before invoking the benefits of this Agreement and, specifically, it shall not be required to exhaust its remedies against the Debtor or any guarantor or surety or to proceed against any other security now or hereafter existing for the payment of any of the indebtedness evidenced by the Note. The Secured Party may exercise its rights hereunder without bringing a separate action against the Debtor.

12. Notices. Any notice or demand under this Agreement or in connection with this Agreement may be given at the addresses set forth in the initial paragraph of this Agreement or by telefacsimile, but actual notice, however given or received, will always be effective.

13. Successors and Assigns. The covenants and agreements herein contained by or on behalf of the Pledgor shall bind the Pledgor, and the Pledgor's legal representatives, successors and assigns and shall inure to the benefit of the Secured Party and the Secured Party's successors and assigns.

14. Invalidity. If any provision hereof shall for any reason be held to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision hereof.

15. Construction. This Agreement will be governed by and construed in accordance with the laws of the State of Oklahoma applicable to contracts made and to be performed entirely within the State of Oklahoma.

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

AUBREY K. McCLENDON, individually

Aubrey K. McClendon, Trustee of the
Aubrey K. McClendon 1992 Revocable Trust

CHESAPEAKE INVESTMENTS, AN OKLAHOMA
LIMITED PARTNERSHIP

By

Aubrey K. McClendon
Sole General Partner

(the "Pledgor")

AMENDED AND RESTATED
LOAN AGREEMENT

between

TOM L. WARD, an individual

and

CHESAPEAKE ENERGY MARKETING, INC.

July 13, 1998

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AMENDED AND RESTATED
LOAN AGREEMENT

THIS AGREEMENT is entered into effective this 13th day of July, 1998, between TOM L. WARD, an individual (the "Borrower"), and CHESAPEAKE ENERGY MARKETING, INC., an Oklahoma corporation (the "Lender"), and amends and restates in its entirety that certain Loan Agreement dated July 7, 1998 between the Borrower and the Lender.

W I T N E S S E T H :

1. **Loan Amount and Purpose.** Subject to the terms and conditions of this Agreement, the Lender agrees to lend to the Borrower such amounts as the Borrower may from time to time request prior to June 1, 1999, but not to exceed principal advances in the aggregate amount of Five Million Dollars (\$5,000,000.00). The loan proceeds will be used solely to reduce the principal balances of existing loans to the Borrower from various margin lenders, including prepayments, scheduled repayments and margin calls by such lenders.
2. **Note.** The loans to be made hereunder will be evidenced by the Promissory Note (the "Note") in the form of Schedule "A" attached hereto as a part hereof and payable on the following terms:
 - 2.1 **Interest.** Except as otherwise provided in the Note, the unpaid principal balance of the Note will bear interest at the per annum rate equal to nine percent (9%). Interest will be payable quarterly throughout the loan term commencing on September 30, 1998, and on the last day of each successive December, March, June and September thereafter until the Note is paid in full. All interest will be computed at a per diem charge for the actual number of days elapsed on the basis of a year consisting of three hundred sixty-five (365) days.
 - 2.2 **Payments.** Each payment on the Note will be applied first to any obligations of the Borrower to the Lender other than principal and interest, then to accrued unpaid interest and the remainder to the principal balance of the Note. The entire unpaid principal balance of the Note, together with all accrued and unpaid interest thereon, will be due and payable on demand or on December 31, 1998 if no demand for payment is made on or prior to such date.
 - 2.3 **No Readvances.** It is understood that the Note is not a revolving note and that on any prepayment of principal, such prepaid amount will not be readvanced.
3. **Collateral Security.** Payment of the Note will be secured by a first lien on and security interest in the following collateral security (the "Collateral"):

- 3.1 Initial Collateral. The property described at Schedule "B" attached hereto (the "Initial Collateral"), provided the Initial Collateral will have a value of no less than \$6,000,000.
- 3.2 Additional Collateral. Additional property satisfactory to the Lender's loan committee.
- 3.3 Security Agreement. The Collateral will be subject to a Security Agreement in the form of Schedule "C" attached hereto as a part hereof (the "Security Agreement").

4. Conditions of Lending. The obligation of the Lender to perform this Agreement and to make the initial or any subsequent advance under the Note is subject to the following conditions precedent:

- 4.1 Loan Documents. This Agreement, the Note, the Security Agreement, financing statements, stock powers and related documents and all extensions, amendments and modifications thereof (collectively the "Loan Documents") will have been duly executed, acknowledged (where appropriate) by all parties thereto and delivered to the Lender, all in form and substance satisfactory to the Lender.
- 4.2 No Violation. The advance shall not cause the Lender to be in violation of any law, rule or regulation applicable to the Lender.
- 4.3 No Default. There will have occurred and be continuing no event of default as of the date of this Agreement or the date of any advances under the Note.
- 4.4 Initial Advance. An initial advance under the Note in the principal amount of \$3,000,000 has been made on satisfaction of the foregoing conditions and perfection of the Lender's first priority security interest in the Initial Collateral.
- 4.5 Subsequent Advances. Subsequent advances (in the maximum aggregate amount of \$2,000,000) will be made under the Note on satisfaction of the foregoing conditions and creation and perfection of a first priority security interest in favor of the Lender in Collateral satisfactory to the Lender's loan committee and compliance with the provisions of Section 6.2.

5. Representations and Warranties. In order to induce the Lender to enter into and perform the Loan Documents, the Borrower represents and warrants to the Lender as follows:

- 5.1 Capacity and Power. The Borrower has adequate capacity, power and legal right to enter into, execute, deliver and perform the terms of the Loan Documents, to borrow money, to give security for borrowings and to consummate the transactions contemplated by the Loan Documents. The execution, delivery and performance of the Loan Documents by the Borrower will not violate any law, regulation, rule or any other agreement or instrument binding on the Borrower or the Collateral.
- 5.2 Full Disclosure. Neither this Agreement nor any statement or document referred to herein or delivered to the Lender by the Borrower or any other party on behalf of the Borrower contains any material untrue statement or omits to state a material fact necessary to make the statements herein or therein not misleading.

6. Covenants of the Borrower. Until the expiration of the Lender's obligation to advance funds under this Agreement and payment in full of the Note,

6.1 Financial Statements. The Borrower will furnish the Borrower's financial statements to the Lender on a quarterly basis, within thirty (30) days after the end of each calendar quarter, commencing with the calendar quarter ending June 30, 1998 and such additional financial statements as the Lender might reasonably request.

6.2 Collateral Ratio. Upon any advance under the Note, the ratio of the value of the Collateral, as reasonably determined by the Lender, to the outstanding principal then owing under the Note after any such advance will be 1.5 to 1 and will satisfy the margin lending requirements of Regulation U.

6.3 Mandatory Prepayments. The Borrower will promptly apply any cash proceeds, distributions or principal payments (other than scheduled dividends or interest payments) received in respect of the Collateral as prepayments of the principal amount owing under the Note.

7. Default. The Lender may terminate all of the Lender's obligations under the Loan Documents and may declare the Note and all other indebtedness and obligations of the Borrower owing to the Lender to be due and payable if any of the following events of default occur and have not been cured or waived by the Lender:

- 7.1 Nonpayment of Note. Default in payment when due of any interest on or principal of the Note; or
- 7.2 Other Nonpayment. Default in the payment of any amount payable to the Lender under the terms of the Loan Documents or any agreement in connection therewith; or

- 7.3 Breach of Agreement. Default in the performance or observance of any covenant contained in the Loan Documents, any other agreement between the Borrower and the Lender or under the terms of any other instrument delivered to the Lender in connection with this Agreement; or
- 7.4 Representations and Warranties. Any representation, statement, certificate, schedule or report made or furnished to the Lender on behalf of the Borrower proves to be false or erroneous in any material respect or any warranty ceases to be complied with in any material respect; or
- 7.5 Insolvency. The Borrower admits the inability to pay the Borrower's debts as such debts mature; or
- 7.6 Bankruptcy. The institution of bankruptcy, reorganization, readjustment of debt, liquidation or receivership proceedings by or against the Borrower under the Bankruptcy Code, as amended, or any part thereof, or under any other laws, whether state or federal, for the relief of debtors, now or hereafter existing; or
- 7.7 Receivership. The appointment of a receiver or trustee for the Borrower or for any substantial part of the Collateral; or
- 7.8 Judgment. Entry by any court of a final judgment against the Borrower or an attachment of any part of the Collateral by any means, including, without limitation, levy, distraint, replevin or self-help, which is not discharged or stayed within ten (10) days thereof.

8. Remedies. On demand, or on the occurrence of an event of default the Lender may, at the Lender's option:

- 8.1 Termination. Terminate the Lender's obligations hereunder, including the obligation to make any advances under the Note.
- 8.2 Acceleration of Note. Declare the Note and all sums due pursuant to the Loan Documents to be immediately due and payable, whereupon the same will become forthwith due and payable, and the Lender will be entitled to proceed to selectively and successively enforce the Lender's rights under the Loan Documents or any other instruments delivered to the Lender in connection with the Loan Documents; provided that if any event of default specified in Sections 7.5, 7.6 or 7.7 shall occur, all amounts owing under the Loan Documents, including the Note, shall thereafter become due and payable concurrently therewith, and the Lender's obligations hereunder shall automatically terminate, without presentment, demand, protest, notice of default, notice of acceleration or

intention to accelerate or other notice of any kind, all of which the Borrower hereby expressly waives.

- 8.3 Selective Enforcement. In the event the Lender elects to selectively and successively enforce the Lender's rights under any one or more of the instruments securing payment of the indebtedness evidenced by the Note, such action will not be deemed a waiver or discharge of any other lien or encumbrance securing payment of any of the indebtedness evidenced by the Note until such time as the Lender has been paid in full all sums advanced by the Lender plus all accrued interest thereon.
- 8.4 Waiver of Default. The Lender may, by an instrument or instruments in writing, signed by the Lender, waive any default which has occurred and any of the consequences of such default, and, in such event, the Lender and the Borrower will be restored to their respective former positions, rights and obligations hereunder. Any default so waived will, for all purposes of this Agreement, be deemed to have been cured and not to be continuing, but no such waiver will extend to any subsequent or other default or impair any consequence of such subsequent or other default.

9. Miscellaneous. It is further agreed as follows:

- 9.1 Expenses. All reasonable out-of-pocket expenses incurred by the Lender in connection with the enforcement of the Loan Documents including, without limitation, reasonable attorneys' fees, will be paid by the Borrower. In addition, the Borrower will pay all recording fees and all other costs and fees incurred in connection with the loan or the Loan Documents.
- 9.2 Notices. All notices, requests and demands will be served by hand delivery, telefacsimile or by registered or certified mail, with return receipt requested, as follows:
- To the Borrower: Mr. Tom L. Ward
 6100 North Western
 Oklahoma City, Oklahoma 73118
 Fax No. (405) 848-8588
- To the Lender: Chesapeake Energy Marketing, Inc.
 6100 North Western
 Oklahoma City, Oklahoma 73118
 Attention: Mr. Marcus C. Rowland
 Fax No. (405) 879-9580

or at such other address as either party designates for such purpose in a written notice to the other party. Notice will be deemed to have been given on the date actually received in the event of personal or telefacsimile delivery or on the date two (2) days after notice is deposited in the mail, properly addressed, postage prepaid.

- 9.3 Severability. In the event any one or more of the provisions contained in any of the Loan Documents is determined to be invalid, illegal or unenforceable in any respect in any jurisdiction, the validity, legality and enforceability of such provision or provisions will not in any way be affected or impaired thereby in any other jurisdiction nor will the validity, legality and enforceability of the remaining provisions contained in the Loan Documents in any way be affected or impaired thereby.
- 9.4 Construction and Venue. This Agreement and the documents issued hereunder are executed and delivered as an incident to a lending transaction negotiated and to be performed in Oklahoma County, Oklahoma. The Loan Documents are intended to constitute a contract made under the laws of the State of Oklahoma and to be construed in accordance with the internal laws of the State of Oklahoma. The descriptive headings of the paragraphs of this Agreement are for convenience only and are not to be used in the construction of the content of this Agreement. All actions relating to or arising under the Loan Documents will be instituted in the courts of the State of Oklahoma sitting in Oklahoma County, Oklahoma, or the United States District Court for the Western District of Oklahoma, and the Borrower irrevocably and unconditionally waives any objection to the venue in such court and any claim that any action has been brought in an inconvenient forum.
- 9.5 No Waiver. No advance of loan proceeds under the Loan Documents will constitute a waiver of any of the Borrower's representations, warranties, conditions or covenants under the Loan Documents.
- 9.6 Counterparts. This Agreement may be executed via telefacsimile in two or more counterparts and it will not be necessary that the signatures of all parties hereto be contained on any one counterpart hereof. Each counterpart will be deemed an original, but all counterparts together will constitute one and the same instrument.

IN WITNESS WHEREOF, the Borrower and the Lender have executed this Agreement effective on the date first above written.

/s/ Tom L. Ward

TOM L. WARD, individually

(the "Borrower")

CHESAPEAKE ENERGY MARKETING,
INC., an Oklahoma corporation

By /s/ Marcus C. Rowland

Marcus C. Rowland, Vice President
and Chief Financial Officer

(the "Lender")

SCHEDULE A
PROMISSORY NOTE

\$5,000,000.00

Oklahoma City, Oklahoma
July 13, 1998

FOR VALUE RECEIVED, the undersigned, TOM L. WARD, an individual (the "Borrower"), promises to pay to the order of CHESAPEAKE ENERGY MARKETING, INC., an Oklahoma corporation (the "Lender"), at 6100 North Western, Oklahoma City, Oklahoma 73118 or at such other place as may be designated in writing by the holder of this Note, the principal sum of FIVE MILLION DOLLARS (\$5,000,000.00), or so much as may be disbursed hereunder, as follows:

Prior to default, the unpaid principal balance of this Note will bear interest at a per annum rate equal to nine percent (9%). Interest will be payable quarterly throughout the loan term commencing on September 30, 1998, and on the last day of each successive December, March, June and September thereafter until this Note is paid in full. All interest will be computed at a per diem charge for the actual number of days elapsed on the basis of a year consisting of three hundred sixty five (365) days.

All payments will be applied first to any obligations of the Borrower to the Lender other than principal and interest, then to accrued unpaid interest on this Note and the remainder to the principal balance of this Note. The entire unpaid principal balance of this Note, together with all accrued and unpaid interest thereon, will be due and payable on demand or on December 31, 1998 if no demand for payment has been made on or before such date.

The Borrower will promptly apply any cash proceeds, distributions or principal payments (other than scheduled dividends or interest payments) received in respect of the Collateral as prepayments of the principal amount owing under the Note.

Except as otherwise defined herein all terms defined in the Amended and Restated Loan Agreement of even date herewith between the Borrower and the Lender (the "Loan Agreement") will have the same meanings herein as therein. This Note amends and restates that certain Promissory Note dated July 7, 1998 in the principal amount of \$5,000,000.00 made by the Borrower in favor of the Lender, and all Collateral securing such Promissory Note will remain in full force and effect. Any sum not paid when due will bear interest at fifteen percent (15%) per annum and will be paid at the time of and as a condition precedent to the curing of any default under the Loan Documents. During the existence of any such default, the holder of

this Note may apply payments received on any amount due hereunder as the holder may determine. The Borrower will have the right to prepay this Note in whole or in part at any time without penalty.

Advances and payments hereunder may, at the option of the Lender, be recorded on this Note and shall be prima facie evidence of such advances, payments and unpaid balance of this Note. All advances hereunder shall be made by the Lender in accordance with the terms of the Loan Agreement.

The Borrower agrees that if, and as often as, this Note is placed in the hands of an attorney for collection or to defend or enforce any of the holder's rights hereunder or under any instrument securing payment of the same, the Borrower will pay to such holder its reasonable attorneys' fees and all expenses incurred in connection therewith, whether or not an action shall be instituted to enforce this Note.

This Note is given by the Borrower and accepted by the holder hereof pursuant to a lending transaction contracted, consummated and to be performed in Oklahoma City, Oklahoma County, Oklahoma, and this Note is to be construed according to the laws of the State of Oklahoma.

This Note is issued subject to the terms of the Loan Agreement and is secured by the Loan Documents. On demand or on the breach of any provision of this Note or any provision of the Loan Documents at the option of the holder, the entire unpaid indebtedness evidenced by this Note will become due, payable and collectible then or thereafter as the holder may elect, regardless of the date of maturity of this Note. Notice of the exercise of such option is hereby expressly waived. Failure by the holder to exercise such option will not constitute a waiver of the right to exercise the same in the event of any subsequent default.

The failure of the Lender to exercise any of the remedies or options set forth in this Note, or in any instrument securing payment hereof, upon the occurrence of one or more events of default, shall not constitute a waiver of the right to exercise the same or any other remedy at any subsequent time in respect to the same or any other event of default. The acceptance by the Lender of any payment which is less than the total of all amounts due and payable at the time of such payment shall not constitute a waiver of the right to exercise any of the foregoing remedies or options at that time or any subsequent time, or nullify any prior exercise of such remedy or option, without the express consent of the Lender.

Time is of the essence of each obligation of the Borrower hereunder.

For the purposes of computing interest under this Note, payments of all or any portion of the principal sum owing under this Note will not be deemed to have been made until such principal payments are received by the Lender in collected funds.

The makers, endorsers, sureties, guarantors and all other persons who may become liable for all or any part of this obligation severally waive presentment for payment, protest, demand and notice of nonpayment. Said parties consent to any extension of time (whether one

or more) of payment hereof, the modification (whether one or more) of payment hereof, release or substitution of all or part of the security for the payment hereof or release of any party liable for payment of this obligation. Any such extension or release may be made without notice to any such party and without discharging such party's liability hereunder.

IN WITNESS WHEREOF, the Borrower has executed this instrument effective the date first above written.

TOM L. WARD, individually
(the "Borrower")

SCHEDULE C

AMENDED AND RESTATED
SECURITY AGREEMENT

THIS AMENDED AND RESTATED SECURITY AGREEMENT is executed effective the 13th day of July, 1998, between TOM L. WARD, an individual (the "Debtor"), TLW INVESTMENTS INC. ("TLW") (the Debtor and TLW are herein collectively referred to as "Pledgor"), each having a notice address at 6100 North Western, Oklahoma City, Oklahoma 73118, and CHESAPEAKE ENERGY MARKETING, INC., an Oklahoma corporation having a notice address at 6100 North Western, Oklahoma City, Oklahoma 73118 (the "Secured Party"). This Agreement amends and restates in its entirety that certain Security Agreement dated July 7, 1998 between the Debtor and the Secured Party, and all collateral security subject to such Security Agreement continues in full force and effect.

W I T N E S S E T H :

WHEREAS, the Debtor is liable to the Secured Party under that certain Promissory Note of even date herewith in the original face amount of FIVE MILLION DOLLARS (\$5,000,000.00) (the "Note") in connection with that certain Amended and Restated Loan Agreement (the "Loan Agreement") of even date herewith between the Debtor and the Secured Party; and

WHEREAS, as a material condition precedent to the Secured Party's entering into the Loan Agreement, the Pledgor has agreed to secure payment of the Note and all other obligations of the Debtor to the Secured Party by granting the Secured Party a lien, security interest and pledge covering certain assets of the Pledgor.

NOW, THEREFORE, (i) in order to comply with the terms and conditions of the Loan Agreement; (ii) for and in consideration of the premises and the agreements herein contained; and (iii) for other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged, the Pledgor hereby agrees with the Secured Party as follows:

1. Definitions. Unless otherwise defined herein, all terms which are defined in the Loan Agreement will have the same meanings herein as therein unless the context otherwise requires, and all terms used herein which are defined in the Oklahoma Uniform Commercial Code ("UCC") will have the same meanings herein unless the context otherwise requires.

2. Security Interest. As collateral security for the Secured Indebtedness, the Pledgor hereby grants to the Secured Party a security interest in, an assignment of, a general lien upon, and a right of set-off against, the following described property (the "Property"):

- 2.1 all of the Pledgor's right, title and interest in and to the financial assets, securities, investment property and other property described at Exhibit A attached hereto, and all certificates representing such property, and all

- tangible and intangible rights in connection therewith and all accounts, contract rights and general intangibles relating thereto (the "Assets");
- 2.2 any additional assets from time to time delivered to or deposited with the Secured Party as security for the obligations of the Debtor to the Secured Party or otherwise pursuant to the terms of this Agreement; and
- 2.3 all cash, securities, dividends (whether cash, property or stock), preferential, conversion or other rights attaching to the Assets, all distributions or payments in partial or complete liquidation or redemption or as a result of reclassifications, readjustments, reorganizations or changes in the capital structure of the issuer of the Assets and all rights and privileges pertaining thereto and all subscriptions, warrants, options and any other rights issued by the issuer of the Assets or any other person upon or in connection with the Assets and all other proceeds, products, additions to, replacements of, substitutions for and accessions of any and all Property described in this paragraph 2.

3. Secured Indebtedness. The security interest granted hereby in the Property is given to secure the Debtor's payment of: (a) the Note together with interest thereon; (b) any and all other or additional obligations of the Debtor to the Secured Party; (c) all extensions, renewals, amendments, modifications, substitutions and changes in form to the Note; (d) all costs and expenses incurred in connection with the collection of the Note and any other obligations of the Debtor to the Secured Party and enforcement of the Loan Documents and the Secured Party's rights under this Agreement and all other Loan Documents, including attorneys' fees and expenses; (e) all advances made by the Secured Party to protect the security hereof, including advances made for or on account of levies, insurance, repairs, taxes and for maintenance or recovery of the Property, together with interest thereon at the rate specified in the Note; (f) any and all other indebtedness, liabilities and obligations of the Debtor to the Secured Party whether now owing or hereafter incurred; and (g) performance of the agreements herein set forth (the foregoing items (a) through (g) are collectively referred to herein as the "Secured Indebtedness").

4. Debtors' Representations and Covenants. The Pledgor hereby warrants, represents and agrees as follows:

- 4.1 Principal Place of Business. The Pledgor's principal place of business is 6100 North Western, Oklahoma City, Oklahoma 73118.
- 4.2 Title. The Pledgor has absolute title to the Property free and clear of all liens, encumbrances, negative pledges and security interests except the security interest hereby granted to the Secured Party and such other rights, if any, of the Secured Party, and the Pledgor warrants and will defend the

- same unto the Secured Party against the claims and demands of all other persons and parties whomsoever.
- 4.3 Transfers. Without the prior written consent of the Secured Party, the Pledgor agrees that the Debtor will not sell, exchange or in any manner dispose of any of the Property or any interest therein nor permit any other lien, encumbrance or security interest to attach thereto except those contemplated herein.
- 4.4 Secured Party's Security Interest. This Agreement creates a valid and binding security interest in the Property securing the Secured Indebtedness. There are no consents required in connection with the grant by the Pledgor of the security interests in the Property. The Pledgor has good right and lawful authority to pledge the Property in the manner hereby done or contemplated. All filings and other actions necessary or appropriate to perfect or protect such security interest will be or have been duly taken. No further or subsequent filing, recording, registration or other public notice of such security interest is necessary in any office or jurisdiction in order to perfect such security interest or to continue, preserve or protect such security interest except for continuation statements.
- 4.5 Inspection. The Secured Party may from time to time, upon request, inspect all of the Pledgor's records concerning any of the Property.
- 4.6 Further Assurances. The Pledgor will from time to time sign, execute, deliver and file, alone or with the Secured Party, any financing statements, stock powers, notices to issuers of securities constituting collateral security, security agreement or other documents; procure any instruments or documents as may be reasonably requested by the Secured Party; and take all further action that may be necessary or desirable, or that the Secured Party may request, to confirm, perfect, preserve and protect the security interests intended to be granted hereby, and in addition, the Pledgor hereby authorizes the Secured Party to execute and deliver on behalf of the Pledgor and file such financing statements, stock powers, security agreements and other documents without the signature of the Pledgor either in the Secured Party's name or in the name of the Pledgor and as agent and attorney-in-fact for the Pledgor. The Pledgor shall do all such additional and further acts or things, give such assurances and execute such documents or instruments as the Secured Party requires to vest more completely in and assure to the Secured Party its rights under the Loan Documents.

- 4.7 Filing Reproductions. At the option of the Secured Party, a carbon, photographic or other reproduction of this Agreement or of a financing statement covering the Property shall be sufficient as a financing statement and may be filed as a financing statement.
- 4.8 Financing Statement Filings; Notifications. The Pledgor will immediately notify the Secured Party of any condition or event that may change the proper location for the filing of any financing statements or other public notice or recordings for the purpose of perfecting a security interest in the Property. Without limiting the generality of the foregoing, the Pledgor will immediately notify the Secured Party of any change in the Pledgor's name or identity. In any notice furnished pursuant to this paragraph 4.8, the Pledgor will expressly state that the notice is required by this Agreement and contains facts that will or may require additional filings of financing statements or other notices for the purpose of continuing perfection of the Secured Party's security interest in the Property.
- 4.9 Possession. Physical possession of the certificates representing or evidencing the Property shall be delivered to and held by Secured Party.

5. Secured Party's Expenditures. If the Pledgor fails to make any expenditure or pay any sum necessary to discharge any lien, encumbrance, levy, security interest or other charge on the Property as required hereby, the Secured Party may but shall not be required to make any expenditure for such purpose or purposes and all sums so expended shall be payable on demand, shall bear interest at the rate specified in the Note and all such sums and interest will additionally be secured hereby. The Pledgor will pay all costs of filing any financing, continuation or termination statements with respect to the security interest granted hereby in the Property.

6. Power of Attorney. The Secured Party is hereby fully authorized and empowered (without the necessity of any further consent or authorization from the Pledgor) and the right is expressly granted to the Secured Party, and the Pledgor hereby constitutes, appoints and makes the Secured Party as the Pledgor's true and lawful attorney-in-fact and agent for the Pledgor and in the Pledgor's name, place and stead with full power of substitution, in the Secured Party's name or the Pledgor's name or otherwise, for Secured Party's sole use and benefit, but at the Pledgor's cost and expense, to exercise, without notice, all or any of the following powers at any time with respect to all or any of the Property after the occurrence of any default under this Agreement or any of the other Loan Documents which has not been timely cured: (a) all voting rights, all other corporate rights and all conversion, exchange, subscription or other rights pertaining to the Property, whether or not the Property has been registered in the Secured Party's name and this Agreement will constitute the Pledgor's proxy to the Secured Party for such purpose; (b) to demand, sue for, collect, receive and give acquittance for any and all monies due or to become due by virtue thereof and otherwise deal with proceeds; (c) to receive, take, endorse, assign and deliver any and all checks, notes, drafts, documents and other

negotiable and non-negotiable instruments and chattel paper taken or received by the Secured Party in connection therewith; (d) to settle, compromise, compound, prosecute or defend any action or proceeding with respect thereto; (e) to sell, transfer, assign or otherwise deal in or with the same or the proceeds or avails thereof as fully and effectively as if the Secured Party were the absolute owner thereof; and (f) to extend the time of payment of any or all thereof and to grant waivers and make any allowance or other adjustment with reference thereto; provided, however, the Secured Party shall be under no obligation or duty to exercise any of the powers hereby conferred upon it and shall be without liability for any act or failure to act in connection with the collection of, or the preservation of any rights under, any Property.

7. Default; Remedies. On the occurrence of any event of default under any of the Loan Documents or if the Pledgor fails to keep, observe, comply with and perform all of the obligations and undertakings under this Agreement or any of the other Loan Documents or fails to pay any principal or interest on the Note when due, then, and in any such event, the Secured Party may, at its option and without notice to any party, declare all or any portion of the Secured Indebtedness to be immediately due and payable and may proceed to enforce payment of the same, to exercise any or all rights and remedies provided herein, in the other Loan Documents, and by the UCC and otherwise available at law or in equity. All remedies hereunder are cumulative, and any indulgence or waiver by the Secured Party shall not be construed as an abandonment of any other right hereunder or of the power to enforce the same or another right at a later time. Whether the Secured Party elects to exercise any other rights or remedies under this Agreement or applicable law, the Secured Party will be entitled to have a receiver appointed to take possession of the Property without notice, which notice the Pledgor hereby waives, notwithstanding anything contained in this Agreement or any law heretofore or hereafter enacted.

8. Secured Party's Duties. The powers conferred upon the Secured Party by this Agreement are solely to protect its interest in the Property and will not impose any duty upon the Secured Party to exercise any such powers. The Secured Party shall be under no duty whatsoever to make or give any presentment, demand for performance, notice of nonperformance, protest, notice of protest, notice of dishonor, or other notice or demand in connection with any of the Property or the Secured Indebtedness, or to take any steps necessary to preserve any rights against prior parties. The Secured Party shall not be liable for failure to collect or realize upon any or all of the Secured Indebtedness or Property, or for any delay in so doing, nor shall the Secured Party be under any duty to take any action whatsoever with regard thereto.

9. Continuing Agreement. This is a continuing Agreement and the grant of a security interest hereunder shall remain in full force and effect and all the rights, powers and remedies of the Secured Party hereunder shall continue to exist until all of the Secured Indebtedness is paid in full as the same becomes due and payable and until the Secured Party, upon request of the Pledgor, has executed a written termination statement, reassigned to the Pledgor, without recourse, the Property and all rights conveyed hereby and returned possession of any Property in the Secured Party's possession to the Pledgor.

10. Preservation of Liability. Neither this Agreement nor the exercise by the Secured Party of (or the failure to so exercise) any right, power or remedy conferred herein or by law shall be construed as relieving any person liable on the Secured Indebtedness from liability on the Secured Indebtedness and for any deficiency thereon.

11. Waivers. It is the intention of the Pledgor and Secured Party that the validity of this Security Agreement shall not be impaired by any defenses given to sureties or guarantors at law or in equity or by virtue of the fact that the Note was executed by the Debtor rather than each Pledgor. Nonexercise by the Secured Party of any right or remedy of the Secured Party provided in the Note, Loan Agreement or other Loan Documents shall in no manner affect the validity or enforceability of this Agreement or give any Pledgor any recourse against the Secured Party.

11.1 Certain Actions. Each Pledgor agrees that from time to time, without affecting the Pledgor's obligations hereunder or the Secured Party's rights in the Property, and without giving notice to or obtaining the consent of any Pledgor, and without liability on the Secured Party's part, the Secured Party may, at its option, (i) extend the time for payment of the Note or any interest thereon, (ii) release anyone liable under the Loan Agreement or Note; (iii) renew, rearrange, consolidate or modify the Note; (iv) take or release any security or additional security for the Note or Loan Agreement; (v) increase or decrease the rate of interest payable on the Note; or (vi) grant any other leniencies, indulgences, or compromises under the Loan Agreement or Note as the Secured Party may deem appropriate or desirable.

11.2 Certain Defenses. Each Pledgor hereby waives diligence, presentment, demand, notice of demand, notice of nonpayment or dishonor, protest, notice of protest and all other notices of any kind whatsoever as to the Note, or any renewal, extension, rearrangement, consolidation or modification thereof. Each Pledgor agrees that it shall not be necessary for the Secured Party, in order to enforce this Agreement, first, (i) to exhaust its remedies against the Debtor, any guarantor or others liable on the obligations evidenced by the Note; or (ii) to enforce the Secured Party's rights in any other security given to secure the Note. Each Pledgor further waives, to the fullest extent permitted by law, (i) all defenses given to sureties or guarantors at law or in equity other than the actual payment of the sums evidenced by the Note and secured by this Agreement and the performance of the other covenants and agreements contained herein and (ii) any defense it may have to any liability hereunder based on any asserted lack of diligence, delay in prosecuting any action with regard to the Note, or any impairment of any other security for payment of the Note.

11.3 Additional Waivers. The validity of this Agreement as to the indebtedness secured by the Note shall not be affected in any manner whatsoever on account of any or all of the following: (i) incapacity, death, disability, dissolution or termination of any person or entity; (ii) the failure of the Secured Party to file or enforce a claim against the estate (either in administration, bankruptcy or other proceedings) of the Debtor, any Pledgor or any other person or entity; (iii) any defenses, setoffs or counterclaims which may be available to the Debtor or any other person or entity; (iv) any modifications, extensions, amendments, consents, releases

or waivers with respect to the Note or any other instrument now or hereafter securing the payment of the Note, or any guaranty of the Note; (v) any failure of the Secured Party to give any notice to any Pledgor of any default under any other instrument securing payment of the Note; or (vi) any impairment, modification, change, release or limitation of the liability of, or stay of actions or lien enforcement proceedings against, the Debtor, its property or its estate in bankruptcy resulting from the operation of any present or future federal or state statute relating to bankruptcy or insolvency or from the decision of any court relating thereto. The Secured Party shall not be required to pursue any other remedies before invoking the benefits of this Agreement and, specifically, it shall not be required to exhaust its remedies against the Debtor or any guarantor or surety or to proceed against any other security now or hereafter existing for the payment of any of the indebtedness evidenced by the Note. The Secured Party may exercise its rights hereunder without bringing a separate action against the Debtor.

12. Notices. Any notice or demand under this Agreement or in connection with this Agreement may be given at the addresses set forth in the initial paragraph of this Agreement or by telefacsimile, but actual notice, however given or received, will always be effective.

13. Successors and Assigns. The covenants and agreements herein contained by or on behalf of the Pledgor shall bind the Pledgor, and the Pledgor's legal representatives, successors and assigns and shall inure to the benefit of the Secured Party and the Secured Party's successors and assigns.

14. Invalidity. If any provision hereof shall for any reason be held to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision hereof.

15. Construction. This Agreement will be governed by and construed in accordance with the laws of the State of Oklahoma applicable to contracts made and to be performed entirely within the State of Oklahoma.

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

TOM L. WARD, individually

TLW INVESTMENTS INC., an Oklahoma corporation

By:

Tom L. Ward, President

(the "Pledgor")

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM BALANCE SHEET AS OF JUNE 30, 1998, AND STATEMENT OF INCOME FOR THE SIX MONTHS ENDED JUNE 30, 1998.

1,000

	6-MOS	
	DEC-31-1998	
	JAN-01-1998	
	JUN-30-1998	59,690
		6,637
		88,642
		1,049
		5,216
	161,514	2,178,774
		1,162,408
		1,260,173
	130,080	919,034
	0	230,000
		1,009
		(31,295)
1,260,173		186,075
	188,870	650,756
		680,109
		0
		516
	29,353	
	(491,239)	
		0
(491,239)		0
		0
	(13,334)	
		0
	(504,573)	
	(5.50)	
	(5.50)	