UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2002

[ ] Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange 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	73-1395733
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6100 NORTH WESTERN AVENUE OKLAHOMA CITY, OKLAHOMA	73118
(Address of principal executive offices)	(Zip Code)

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

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

At March 10, 2002, there were 165,935,028 shares of our $.01 par value common stock outstanding.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

INDEX TO FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2002

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	DECEMBER 31, 2001	MARCH 31, 2002
	($ IN THOUSANDS)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 117,594	$ 121,952
Restricted cash	7,366	255
Accounts receivable:		
Oil and gas sales	51,496	63,922
Joint interest, net of allowances of $947,000 and $1,093,000, respectively	17,364	19,131
Short-term derivatives	34,543	32,900
Related parties	9,896	6,419
Other	14,951	17,143
Short-term derivative instruments	97,544	--
Inventory and other	10,629	10,461
Total Current Assets	361,383	272,183
PROPERTY AND EQUIPMENT:		
Oil and gas properties, at cost based on full-cost accounting:		
Evaluated oil and gas properties	3,546,163	3,636,641
Unevaluated properties	66,205	60,007
Less: accumulated depreciation, depletion and amortization	(1,902,587)	(1,951,205)
	1,709,781	1,745,443
Other property and equipment	115,694	123,222
Less: accumulated depreciation and amortization	(39,894)	(41,723)
Total Property and Equipment	1,785,581	1,826,942
OTHER ASSETS:		
Long-term derivatives receivable	18,852	12,220
Deferred income tax asset	67,781	103,875
Long-term derivative instruments	6,370	--
Long-term investments	29,849	28,546
Other assets	16,952	15,624
Total Other Assets	139,804	160,265
TOTAL ASSETS	$ 2,286,768	$ 2,259,390
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable and current maturities of long-term debt	$ 602	$ 380
Accounts payable	79,945	57,120
Accrued interest	26,316	41,514
Short-term derivative instruments	--	9,947
Other accrued liabilities	36,998	40,773
Revenues and royalties due others	29,520	29,579
Total Current Liabilities	173,381	179,313
LONG-TERM DEBT, NET	1,329,453	1,308,424
REVENUES AND ROYALTIES DUE OTHERS	12,696	12,643
LONG-TERM DERIVATIVE INSTRUMENTS	--	39,091
OTHER LIABILITIES	3,831	3,831
CONTINGENCIES AND COMMITMENTS (NOTE 3)		
STOCKHOLDERS' EQUITY:		
Preferred Stock, $.01 par value, 10,000,000 shares authorized; 3,000,000 shares of 6.75% cumulative convertible preferred stock, issued and outstanding at December 31, 2001 and March 31, 2002, entitled in liquidation to $150 million	150,000	150,000
Common Stock, $.01 par value, 350,000,000 shares authorized, 169,534,991 and 170,588,773 shares issued at December 31, 2001 and March 31, 2002, respectively	1,696	1,706
Paid-in capital	1,035,156	1,038,322
Accumulated deficit	(442,974)	(473,147)
Accumulated other comprehensive income, net of tax of $29,000,000 and $12,793,000, respectively	43,511	19,189
Less: treasury stock, at cost; 4,792,529 common shares at December 31, 2001 and March 31, 2002	(19,982)	(19,982)
Total Stockholders' Equity	767,407	716,088

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,286,768	$ 2,259,390

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2002
	($ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
REVENUES:		
Oil and gas sales	$ 221,219	$ 141,971
Risk management loss	--	(79,468)
Oil and gas marketing sales	56,165	27,333
Total Revenues	277,384	89,836
OPERATING COSTS:		
Production expenses	17,788	22,060
Production taxes	14,295	5,216
General and administrative	4,001	4,294
Oil and gas marketing expenses	54,478	26,507
Oil and gas depreciation, depletion and amortization	38,173	48,619
Depreciation and amortization of other assets	1,953	3,110
Total Operating Costs	130,688	109,806
INCOME (LOSS) FROM OPERATIONS	146,696	(19,970)
OTHER INCOME (EXPENSE):		
Interest and other income	569	954
Interest expense	(25,889)	(26,960)
Gothic standby credit facility costs	(3,392)	--
Total Other Income (Expense)	(28,712)	(26,006)
INCOME (LOSS) BEFORE INCOME TAXES	117,984	(45,976)
PROVISION (BENEFIT) FOR INCOME TAXES	47,696	(18,390)
NET INCOME (LOSS)	70,288	(27,586)
PREFERRED STOCK DIVIDENDS	(546)	(2,532)
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$ 69,742	$ (30,118)
EARNINGS (LOSS) PER COMMON SHARE:		
Basic	$ 0.44	$ (0.18)
Assuming dilution	$ 0.41	$ (0.18)
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING:		
Basic	157,707	165,372
Assuming dilution	170,326	165,372

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2001	2002
	($ IN THOUSANDS)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	$ 70,288	$ (27,586)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation, depletion and amortization	39,116	50,526
Risk management loss	--	79,468
Deferred income taxes	47,696	(18,390)
Write-off of credit facility cost	3,392	--
Amortization of loan costs	1,010	1,203
Amortization of bond discount	19	244
Accretion of Gothic note premium	(704)	--
Loss on sale/disposal of fixed assets and other	25	48
Loss on repurchase of debt	--	591
Gain on sale of RAM Energy notes	--	(461)
Bad debt expense	--	140
Other	64	129
Cash provided by operating activities before changes in current assets and liabilities	160,906	85,912
Changes in assets and liabilities	45,443	31,385
Cash provided by operating activities	206,349	117,297
CASH FLOWS FROM INVESTING ACTIVITIES:		
Exploration and development of oil and gas properties	(109,859)	(83,281)
Purchases of oil and gas properties	(43,980)	(894)
Sales of oil and gas properties	140	--
Sales of non-oil and gas assets	35	31
Additions to buildings and other fixed assets	(13,060)	(7,413)
Additions to drilling rig equipment	--	(216)
Additions to long-term investments	--	(2,408)
Proceeds from sale of RAM Energy notes	--	4,215
Other	269	7
Cash used in investing activities	(166,455)	(89,959)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings	93,000	--
Payments on long-term borrowings	(103,500)	--
Cash paid to repurchase senior notes	(8,255)	(21,000)
Cash paid for premium on repurchase of senior notes	--	(440)
Cash paid for financing costs related to debt	(712)	(84)
Cash received from exercise of stock options	2,191	1,181
Cash paid for preferred stock dividend	(546)	(2,587)
Other	--	(50)
Cash used in financing activities	(17,822)	(22,980)
Effect of changes in exchange rate on cash	(869)	--
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,203	4,358
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	--	117,594
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 21,203	$ 121,952

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2002
	($ IN THOUSANDS)	
Net income (loss)	$ 70,288	$ (27,586)
Other comprehensive income (loss), net of income tax:		
Foreign currency translation adjustments	(3,219)	--
Cumulative effect of accounting change for financial derivatives	(53,580)	--
Change in fair value of derivative instruments	42,138	(10,730)
Reclassification of settled contracts	18,326	(14,086)
Ineffective portion of derivatives qualifying for hedge accounting	--	494
Comprehensive income (loss)	$ 73,953	$ (51,908)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Principles of Consolidation

The accompanying unaudited consolidated financial statements of Chesapeake Energy Corporation and Subsidiaries have been prepared in accordance with the instructions to Form 10-Q as prescribed by the Securities and Exchange Commission. All material adjustments (consisting solely of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods have been reflected. The results for the three months ended March 31, 2002 are not necessarily indicative of the results to be expected for the full year. This Form 10-Q relates to the three months ended March 31, 2001 (the "Prior Quarter") and the three months ended March 31, 2002 (the "Current Quarter").

2. HEDGING ACTIVITIES AND FINANCIAL INSTRUMENTS

Oil and Gas Hedging Activities

Our results of operations and operating cash flows are impacted by changes in market prices for oil and gas. To mitigate a portion of this exposure to adverse market changes, we have entered into derivative instruments. As of March 31, 2002, our derivative instruments were comprised of swaps, collars, cap-swaps, straddles, strangles and basis protection swaps. These instruments allow us to predict with greater certainty the effective oil and gas prices to be received for our hedged production.

- For swap instruments, we receive a fixed price for the hedged commodity and pay a floating market price, as defined in each instrument, to the counterparty. The fixed-price payment and the floating-price payment are netted, resulting in a net amount due to or from the counterparty.

- Collars contain a fixed floor price (put) and ceiling price (call). If the market price exceeds the call strike price or falls below the put strike price, then we receive the fixed price and pay the market price. If the market price is between the call and the put strike price, then no payments are due from either party.

- For cap-swaps, we receive a fixed price for the hedged commodity and pay a floating market price. The fixed price received by Chesapeake includes a premium in exchange for a "cap" limiting the counterparty's exposure.

- For straddles, Chesapeake receives a premium from the counterparty in exchange for the sale of a call and a put option which establish a fixed price. To the extent that the market price differs from the established fixed price, Chesapeake pays the counterparty.

- For strangles, Chesapeake receives a premium from the counterparty in exchange for the sale of a call and a put option. If the market price exceeds the fixed price of the call option or falls below the fixed price of the put option, then Chesapeake pays the counterparty. If the market price settles between the fixed price of the call and put option, no payment is due from Chesapeake.

- Basis protection swaps are arrangements that guarantee a price differential of oil and gas from a specified delivery point. Chesapeake receives a payment from the counterparty if the price differential is greater than the stated terms of the contract and pays the counterparty if the price differential is less than the stated terms of the contract.

From time to time, we close certain swap transactions designed to hedge a portion of our oil and natural gas production by entering into a counter-swap instrument. Under the counter-swap we receive a floating price for the hedged commodity and pay a fixed price to the counterparty. To the extent the counter-swap is designed to lock the value of an existing SFAS 133 cash flow hedge, the net value of the swap and the counter-swap is frozen and shown as a derivative receivable or payable in the consolidated balance sheets. At the same time, the original swap is designated as a non-qualifying cash flow hedge under SFAS 133.

Pursuant to SFAS 133, our cap-swaps, straddles, strangles, counter-swaps and basis protection swaps do not qualify for designation as cash flow hedges. Therefore, changes in the fair value of these instruments that occur prior to their maturity, together with any changes in fair value of cash flow hedges resulting from ineffectiveness, are reported in the consolidated statements of operations as risk management income (loss). Amounts recorded in risk management income (loss) do not represent cash gains or losses. Rather, these amounts are temporary valuation swings in contracts or portions of contracts that are not entitled to receive SFAS 133 cash flow hedge accounting treatment. All amounts initially recorded in this caption are ultimately reversed within this same caption and included in oil and gas sales over the respective contract terms.

The estimated fair values of our oil and gas derivative instruments as of March 31, 2002 are provided below. The associated carrying values of these instruments are equal to the estimated fair values.

	MARCH 31, 2002 ($ IN THOUSANDS)
Derivative assets (liabilities):	
Fixed-price gas swaps	$ (18,504)
Fixed-price gas collars	7,046
Fixed-price gas cap-swaps	25,949
Gas basis protection swaps	(6,222)
Gas straddles	(25,825)
Gas strangles	(31,004)
Fixed-price gas counter-swaps	2,239
Fixed-price gas locked swaps	43,716
Fixed-price crude oil cap-swaps	(2,286)
Fixed-price crude oil locked swaps	1,404
Total	$ (3,487)(a)

(a) After adjusting for the $40.9 million premium paid to Chesapeake by the counterparty at the inception of the straddle and strangle contracts (which is recorded in cash provided by operating activities on the accompanying consolidated statements of cash flows), the net value of the combined hedging portfolio at March 31, 2002 was $37.4 million.

We expect to transfer approximately $12.9 million of the balance in accumulated other comprehensive income, based upon the market prices at March 31, 2002, to earnings during the next 12 months when the forecasted transactions actually occur. All forecasted transactions hedged as of March 31, 2002 are expected to mature by December 2005.

Additional information concerning the fair value of our oil and gas derivative instruments is as follows ($ in thousands):

Fair value of contracts outstanding at January 1, 2002	$ 157,309
Change in fair value of contracts during period	(69,712)
Contracts realized or otherwise settled during the period	(48,554)
Fair value of new contracts when entered into during the period	(42,530)
Changes in fair values attributable to changes in valuation techniques and assumptions	--
Fair value of contracts outstanding at March 31, 2002	$ (3,487)

Risk management loss related to our oil and gas derivatives for the three months ended March 31, 2002 is comprised of the following ($ in thousands):

Risk Management Loss:	
Change in fair value of derivatives not qualifying for hedge accounting	$(53,414)
Reclassification of settled contracts	(25,077)
Ineffective portion of derivatives qualifying for hedge accounting	(824)
Total	$(79,315)

Although derivatives often fail to achieve 100% effectiveness for accounting purposes, our derivative instruments continue to be highly effective in achieving the risk management objectives for which they were intended.

Interest Rate Risk

We also utilize hedging strategies to manage interest rate exposure. In March 2002, we entered into an interest rate swap to convert a portion of our fixed rate debt to floating rate debt. The terms of the swap agreement are as follows:

MONTHS	NOTIONAL AMOUNT	FIXED RATE	FLOATING RATE
March 2002 - March 2004	$200,000,000	7.875%	U.S. six-month LIBOR in arrears plus 298.25 basis points

If the floating rate is less than the fixed rate, the counterparty will pay us accordingly. If the floating rate exceeds the fixed rate, we will pay the counterparty. Payments under the interest rate swap coincide with the semi-annual interest payments on our 7.875% senior notes which are due September 15 and March 15 of each year beginning September 15, 2002.

A portion of the interest rate swap was entered into to convert $129 million of the 7.875% senior notes from fixed rate debt to variable rate debt. Under SFAS 133, a hedge of the interest rate risk in a recognized fixed rate liability can be designated as a fair value hedge. Accordingly, the mark-to-market value of the swap is recorded on the consolidated balance sheets as an asset or liability with a corresponding increase or decrease to the debt's carrying value.

The remaining $71 million of the interest rate swap has not been designated as a fair value hedge. The mark-to-market value of this portion of the instrument is recorded as a derivative asset or liability on the consolidated balance sheets with the offsetting amount reflected in risk management income (loss) on the consolidated statements of operations. The amount recorded in risk management income (loss) will be reversed and reflected in interest expense when the swap is settled.

The estimated fair value of the interest rate swap at March 31, 2002 was a liability of approximately $0.4 million comprised of $0.2 million reflected as risk management loss and $0.2 million reflected as a reduction to long-term debt. Results from interest rate hedging transactions are reflected as adjustments to interest expense in the corresponding months covered by the swap agreement.

Fair Value of Financial Instruments

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

The carrying values of items comprising current assets and current liabilities approximate fair values due to the short-term maturities of these instruments. We estimate the fair value of our long-term (including current maturities), fixed-rate debt using primarily quoted market prices. Our carrying amount for such debt at March 31, 2002 and December 31, 2001 was $1,308.8 million and $1,330.1 million, respectively, compared to approximate fair values of $1,322.2 million and $1,343.0 million, respectively. The carrying value of other long-term debt approximates its fair value as interest rates are primarily variable, based on prevailing market rates. The carrying amount for our 6.75% convertible preferred stock at March 31, 2002 was $150.0 million, which approximated its fair value as of that date.

Concentration of Credit Risk

A significant portion of our liquidity is concentrated in cash and cash equivalents, including restricted cash, and derivative instruments that enable us to hedge a portion of our exposure to price volatility from producing oil and natural gas and interest rate volatility. These arrangements expose us to credit risk from our counterparties. Other financial instruments which potentially subject us to concentrations of credit risk consist principally of investments in debt instruments and accounts receivables. Our accounts receivable are primarily from purchasers of oil and natural gas products and exploration and production companies which own interests in properties we operate. The industry concentration has the potential to impact our overall exposure to credit risk, either positively or negatively, in that our customers may be similarly affected by changes in economic, industry or other conditions. We generally require letters of credit for receivables from customers which are judged to have sub-standard credit, unless the credit risk can otherwise be mitigated. Cash and cash equivalents are deposited with major banks or institutions with high credit ratings.

3. CONTINGENCIES AND COMMITMENTS

West Panhandle Field Cessation Cases. One of our subsidiaries, Chesapeake Panhandle Limited Partnership ("CP") (f/k/a MC Panhandle, Inc.), and two subsidiaries of Kinder Morgan, Inc. have been defendants in 16 lawsuits filed between June 1997 and December 2001 by royalty owners seeking the cancellation of oil and gas leases in the West Panhandle Field in Texas. MC Panhandle, Inc., which we acquired in April 1998, has owned the leases since January 1, 1997. The co-defendants are prior lessees. The plaintiffs in these cases have claimed the leases terminated upon the cessation of production for various periods, primarily during the 1960s. In addition, the plaintiffs have sought to recover conversion damages, exemplary damages, attorneys' fees and interest. The defendants have asserted that any cessation of production was excused and have pled affirmative defenses of limitations, waiver, temporary estoppel, laches and title by adverse possession. Four of the 16 cases have been tried, and there have been appellate decisions in three of them.

In January 2001, we settled the claims of the principal plaintiffs in eight cases tried or pending in the District Court of Moore County, Texas, 69th Judicial District. The settlement was not material to our financial condition or results of operations. In December 2001, the Texas Supreme Court accepted for review petitions we filed with respect to the claims of plaintiffs in two of these cases who were not covered by the settlement. The Court heard oral arguments in March 2002.

There are eight other related West Panhandle cessation cases which continue to be pending, three in the District Court of Moore County, Texas, 69th Judicial District, two in the District Court of Carson County, Texas, 100th Judicial District, and three in the U.S. District Court, Northern District of Texas, Amarillo Division. In one of the Moore County cases, CP and the other defendants have appealed a January 2000 judgment notwithstanding verdict in favor of plaintiffs. In addition to quieting title to the lease (including existing gas wells and all attached equipment) in plaintiffs, the court awarded actual damages against CP in the amount of $716,400 and exemplary damages in the amount of $25,000. The court further awarded, jointly and severally from all defendants, $160,000 in attorneys' fees and interest and court costs. On March 28, 2001, the Amarillo Court of Appeals reversed and rendered judgment in favor of CP and the other defendants, finding that the subject leases had been revived as a matter of law, making all other issues moot. Plaintiffs have filed petitions requesting that the Texas Supreme Court accept the case for review. In another of the Moore County, Texas cases, in June 1999, the court granted plaintiffs' motion for summary judgment in part, finding that the lease had terminated due to the cessation of production, subject to the defendants' affirmative defenses. In February 2001, the court granted plaintiffs' motion for summary judgment on defendants' affirmative defenses but reversed its ruling that the lease had terminated as a matter of law. In one of the U.S. District Court cases, after a trial in May 1999, the jury found plaintiffs' claims were barred by the payment of shut-in royalties, laches and revivor. Plaintiffs have moved for a new trial. There are motions pending in two other cases, and the remaining three cases are in the pleading stage.

We have previously established an accrued liability we believe will be sufficient to cover the estimated costs of litigation for each of the pending cases. Because of the inconsistent verdicts reached by the juries in the four cases tried to date and because the amount of damages sought is not specified in all of the pending cases, the outcome of any future trials and the amount of damages that might ultimately be awarded could differ from management's estimates. CP and the other defendants are vigorously defending against the plaintiffs' claims.

Chesapeake is currently involved in various other routine disputes incidental to its business operations. Management, after consultation with legal counsel, is of the opinion that the final resolution of all such currently pending or threatened litigation is not likely to have a material adverse effect on the consolidated financial position or results of operations of Chesapeake.

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

4. NET INCOME PER SHARE

Statement of Financial Accounting Standards No. 128, Earnings Per Share, requires presentation of "basic" and "diluted" earnings per share, as defined, on the face of the statements of operations for all entities with complex capital structures. SFAS 128 requires a reconciliation of the numerator and denominator of the basic and diluted EPS computations.

The following securities were not included in the calculation of diluted earnings per share, as the effect was antidilutive:

- For the quarter ended March 31, 2002, outstanding warrants to purchase 1.1 million shares of common stock at a weighted average exercise price of $12.61 were antidilutive because the exercise prices of the warrants were greater than the average price of the common stock during the Current Quarter.

- For the quarter ended March 31, 2002 and 2001, outstanding options to purchase 0.8 million and 0.1 million shares of common stock at a weighted average exercise price of $10.05 and $25.00, respectively, were antidilutive because the exercise prices of the options were greater than the average market price of the common stock.

- As a result of the Current Quarter's net loss to common shareholders, the diluted shares do not include the effect of outstanding stock options to purchase 5.2 million shares of common stock at a weighted average exercise price of $3.81, the assumed conversion of the outstanding 6.75% preferred stock (convertible into 19.5 million common shares) or warrants to purchase 6,567 shares of common stock at a weighted average exercise price of $0.05 as the effects were antidilutive.

A reconciliation for the quarter ended March 31, 2001 is as follows:

	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
FOR THE QUARTER ENDED MARCH 31, 2001:			
BASIC EPS			
Income available to common shareholders	$ 69,742	157,707	$ 0.44
EFFECT OF DILUTIVE SECURITIES			
Assumed conversion at the beginning of the period of preferred shares exchanged during the period:			
Preferred stock dividends	546	--	
Assumed conversion of 624,037 shares of 7% preferred stock at beginning of period	--	4,489	
Employee stock options	--	8,130	
DILUTED EPS			
Income available to common shareholders and assumed conversions	$ 70,288	170,326	$ 0.41

On November 13, 2001, we issued 3.0 million shares of 6.75% cumulative convertible preferred stock, par value $0.01 per share and liquidation preference $50 per share, in a private offering. We subsequently registered under the Securities Act of 1933 shares of the preferred stock and underlying common stock for resale by the holders.

5. SENIOR NOTES AND REVOLVING CREDIT FACILITY

On November 5, 2001, Chesapeake closed a private offering of $250.0 million of 8.375% senior notes due 2008, all of which were exchanged on January 23, 2002 for substantially identical notes registered under the Securities Act of 1933. The 8.375% senior notes will be redeemable by us prior to November 1, 2005 at the make-whole prices determined in accordance with the indenture, and on and after November 1, 2005 at annually declining redemption prices.

On April 6, 2001, we issued $800.0 million principal amount of 8.125% senior notes due 2011, all of which were subsequently exchanged for substantially identical notes registered under the Securities Act of 1933. The 8.125% senior notes will be redeemable by us prior to April 1, 2006 at the make-whole prices determined in accordance with the indenture, and on and after April 1, 2006 at annually declining redemption prices.

On March 17, 1997, we issued $150.0 million principal amount of 7.875% senior notes due 2004. The 7.875% senior notes are redeemable at our option at any time prior to March 15, 2004 at the make-whole prices determined in accordance with the indenture. During the Current Quarter, we purchased and subsequently retired $21.0 million of these notes for total consideration of $21.9 million, including $0.5 million of accrued interest and $0.4 million of redemption premium.

Also on March 17, 1997, we issued $150.0 million principal amount of 8.5% senior notes due 2012. The 8.5% senior notes are redeemable at our option at any time prior to March 15, 2004 at the make-whole prices determined in accordance with the indenture and, on or after March 15, 2004, at annually declining redemption prices set forth in the indenture. During the quarter ended March 31, 2001, Chesapeake purchased and subsequently retired $7.3 million of these notes for total consideration of $7.4 million, including accrued interest of $0.2 million and the write-off of $0.1 million of unamortized bond discount.

The senior note indentures contain covenants limiting us 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 senior note indentures also limit our ability to make restricted payments (as defined), including the payment of cash dividends, unless the debt incurrence and other tests are met.

Chesapeake is a holding company and owns no operating assets and has no significant operations independent of its subsidiaries. Our obligations under the 8.375% senior notes, the 8.125% senior notes, the 7.875% senior notes and the 8.5% senior notes have been fully and unconditionally guaranteed, on a joint and several basis, by each of our "restricted subsidiaries" (as defined in the respective indentures governing these notes) (collectively, the "guarantor subsidiaries"). Each guarantor subsidiary is a direct or indirect wholly-owned subsidiary.

We have a $225 million revolving bank credit facility (with a committed borrowing base of $225 million) which matures in September 2003. As of March 31, 2002, we had no outstanding borrowings under this facility and were using $21.3 million of the facility to secure various letters of credit. Borrowings under the facility are collateralized by certain producing oil and gas properties and bear interest at either the reference rate of Union Bank of California, N.A., or London Interbank Offered Rate (LIBOR), at our option, plus a margin that varies according to total facility usage. The unused portion of the facility is subject to an annual commitment fee of 0.50%. Interest is payable quarterly. The collateral value and borrowing base are redetermined periodically. The maturity of the bank credit facility can be extended to June 2005 provided certain conditions are met.

The credit facility agreement contains various covenants and restrictive provisions including incurring additional indebtedness, selling properties, paying dividends, purchasing or redeeming our capital stock, making investments or loans, purchasing certain of our senior notes, creating liens, and making acquisitions. The credit facility agreement requires us to maintain a current ratio of at least 1 to 1 and a fixed charge coverage ratio of at least 2.5 to 1. If we should fail to perform our obligations under these and other covenants, the revolving credit commitment could be terminated and any outstanding borrowings under the facility could be declared immediately due and payable. Such acceleration, if involving a principal amount of $10 million or more, would constitute an event of default under our senior note indentures, which could in turn result in the acceleration of our senior note indebtedness. The credit facility agreement also has cross default provisions that apply to other indebtedness we may have with an outstanding principal amount in excess of $5.0 million.

Set forth below are condensed consolidating financial statements of the guarantor subsidiaries and our subsidiaries which are not guarantors of the senior notes. Chesapeake Energy Marketing, Inc. was a non-guarantor subsidiary for all periods presented. All of our other wholly-owned subsidiaries were guarantor subsidiaries during all periods presented.

CONDENSED CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2001
($ IN THOUSANDS)

	GUARANTOR SUBSIDIARY	NON-GUARANTOR SUBSIDIARY	PARENT	ELIMINATIONS	CONSOLIDATED
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ (7,905)	$ 19,714	$ 113,151	$ --	$ 124,960
Accounts receivable	113,493	30,380	2,715	(18,338)	128,250
Short-term derivative instruments	97,544	--	--	--	97,544
Inventory and other	10,208	421	--	--	10,629
Total Current Assets	213,340	50,515	115,866	(18,338)	361,383
PROPERTY AND EQUIPMENT:					
Oil and gas properties	3,546,163	--	--	--	3,546,163
Unevaluated leasehold	66,205	--	--	--	66,205
Other property and equipment	53,681	23,537	38,476	--	115,694
Less: accumulated depreciation, depletion and amortization	(1,920,613)	(18,668)	(3,200)	--	(1,942,481)
Net Property and Equipment	1,745,436	4,869	35,276	--	1,785,581
OTHER ASSETS:					
Investments in subsidiaries and intercompany advances	--	--	(21,054)	21,054	--
Long-term derivative receivable	18,852	--	--	--	18,852
Deferred income tax asset	(218,596)	(1,376)	287,753	--	67,781
Long-term derivative instruments	6,370	--	--	--	6,370
Long-term investments	--	--	29,849	--	29,849
Other assets	5,589	334	11,050	(21)	16,952
Total Other Assets	(187,785)	(1,042)	307,598	21,033	139,804
TOTAL ASSETS	$ 1,770,991	$ 54,342	$ 458,740	$ 2,695	$ 2,286,768
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt	$ 602	$ --	$ --	$ --	$ 602
Accounts payable and other current liabilities	127,967	36,755	26,338	(18,281)	172,779
Total Current Liabilities	128,569	36,755	26,338	(18,281)	173,381
LONG-TERM DEBT	--	--	1,329,453	--	1,329,453
REVENUES AND ROYALTIES DUE OTHERS	12,696	--	--	--	12,696
OTHER LIABILITIES	3,831	--	--	--	3,831
INTERCOMPANY PAYABLES	1,664,517	19	(1,664,458)	(78)	--
STOCKHOLDERS' EQUITY (DEFICIT):					
Common Stock	66	1	1,686	(57)	1,696
Other	(38,688)	17,567	765,721	21,111	765,711
Total Stockholders' Equity (Deficit)	(38,622)	17,568	767,407	21,054	767,407
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,770,991	$ 54,342	$ 458,740	$ 2,695	$ 2,286,768

CONDENSED CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2002
($ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARY	PARENT	ELIMINATIONS	CONSOLIDATED
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ (28,789)	$ 10,136	$ 140,860	$ --	$ 122,207
Accounts receivable	118,455	40,917	4,384	(24,241)	139,515
Inventory and other	10,080	366	15	--	10,461
Total Current Assets	99,746	51,419	145,259	(24,241)	272,183
PROPERTY AND EQUIPMENT:					
Oil and gas properties	3,636,641	--	--	--	3,636,641
Unevaluated leasehold	60,007	--	--	--	60,007
Other property and equipment	55,633	23,810	43,779	--	123,222
Less: accumulated depreciation, depletion and amortization	(1,970,575)	(18,897)	(3,456)	--	(1,992,928)
Net Property and Equipment	1,781,706	4,913	40,323	--	1,826,942
OTHER ASSETS:					
Investments in subsidiaries and intercompany advances	--	--	85,892	(85,892)	--
Long-term derivative receivable	12,220	--	--	--	12,220
Deferred income tax asset	(26,226)	(1,455)	131,556	--	103,875
Long-term investments	--	--	28,546	--	28,546
Other assets	4,790	251	10,583	--	15,624
Total Other Assets	(9,216)	(1,204)	256,577	(85,892)	160,265
TOTAL ASSETS	$ 1,872,236	$ 55,128	$ 442,159	$ (110,133)	$ 2,259,390
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt	$ 380	$ --	$ --	$ --	$ 380
Accounts payable and other current liabilities	122,717	38,916	41,547	(24,247)	178,933
Total Current Liabilities	123,097	38,916	41,547	(24,247)	179,313
LONG-TERM DEBT	--	--	1,308,424	--	1,308,424
REVENUES AND ROYALTIES DUE OTHERS	12,643	--	--	--	12,643
LONG-TERM DERIVATIVE INSTRUMENTS	38,660	--	431	--	39,091
OTHER LIABILITIES	3,831	--	--	--	3,831
INTERCOMPANY PAYABLES	1,627,707	(3,382)	(1,624,331)	6	--
STOCKHOLDERS' EQUITY (DEFICIT):					
Common Stock	66	1	1,696	(57)	1,706
Other	66,232	19,593	714,392	(85,835)	714,382
Total Stockholders' Equity (Deficit)	66,298	19,594	716,088	(85,892)	716,088
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 1,872,236	$ 55,128	$ 442,159	$ (110,133)	$ 2,259,390

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
($ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARY	PARENT	ELIMINATIONS	CONSOLIDATED
FOR THE THREE MONTHS ENDED MARCH 31, 2001:					
REVENUES:					
Oil and gas sales	$ 221,219	$ --	$ --	$ --	$ 221,219
Oil and gas marketing sales	--	133,913	--	(77,748)	56,165
Total Revenues	221,219	133,913	--	(77,748)	277,384
OPERATING COSTS:					
Production expenses and taxes	32,083	--	--	--	32,083
General and administrative	3,543	350	108	--	4,001
Oil and gas marketing expenses	--	132,226	--	(77,748)	54,478
Oil and gas depreciation, depletion and amortization	38,173	--	--	--	38,173
Other depreciation and amortization	1,062	20	871	--	1,953
Total Operating Costs	74,861	132,596	979	(77,748)	130,688
INCOME (LOSS) FROM OPERATIONS	146,358	1,317	(979)	--	146,696
OTHER INCOME (EXPENSE):					
Interest and other income	442	75	22,734	(22,682)	569
Interest expense	(27,814)	(1)	(20,756)	22,682	(25,889)
Gothic standby credit facility costs	--	--	(3,392)	--	(3,392)
Equity in net earnings of subsidiaries	--	--	71,724	(71,724)	--
Total Other Income (Expense)	(27,372)	74	70,310	(71,724)	(28,712)
INCOME (LOSS) BEFORE INCOME TAXES	118,986	1,391	69,331	(71,724)	117,984
INCOME TAX EXPENSE (BENEFIT)	48,097	556	(957)	--	47,696
NET INCOME (LOSS)	$ 70,889	$ 835	$ 70,288	$ (71,724)	$ 70,288

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARY	PARENT	ELIMINATIONS	CONSOLIDATED
FOR THE THREE MONTHS ENDED MARCH 31, 2002:					
REVENUES:					
Oil and gas sales	$ 141,971	$ --	$ --	$ --	$ 141,971
Risk management loss	(79,315)	--	(153)	--	(79,468)
Oil and gas marketing sales	--	89,465	--	(62,132)	27,333
Total Revenues	62,656	89,465	(153)	(62,132)	89,836
OPERATING COSTS:					
Production expenses and taxes	27,276	--	--	--	27,276
General and administrative	3,630	451	213	--	4,294
Oil and gas marketing expenses	--	88,639	--	(62,132)	26,507
Oil and gas depreciation, depletion and amortization	48,619	--	--	--	48,619
Other depreciation and amortization	2,171	277	662	--	3,110
Total Operating Costs	81,696	89,367	875	(62,132)	109,806
INCOME (LOSS) FROM OPERATIONS	(19,040)	98	(1,028)	--	(19,970)
OTHER INCOME (EXPENSE):					
Interest and other income	209	99	28,115	(27,469)	954
Interest expense	(26,569)	--	(27,860)	27,469	(26,960)
Equity in net earnings of subsidiaries	--	--	(27,122)	27,122	--
Total Other Income (Expense).	(26,360)	99	(26,867)	27,122	(26,006)
INCOME (LOSS) BEFORE INCOME TAXES	(45,400)	197	(27,895)	27,122	(45,976)
INCOME TAX EXPENSE (BENEFIT)	(18,160)	79	(309)	--	(18,390)
NET INCOME (LOSS)	$ (27,240)	$ 118	$(27,586)	$ 27,122	$ (27,586)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
($ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARY	PARENT	ELIMINATIONS	CONSOLIDATED
FOR THE THREE MONTHS ENDED MARCH 31, 2001:					
CASH FLOWS FROM OPERATING ACTIVITIES	$ 200,370	$ (1,721)	$ 79,424	$ (71,724)	$ 206,349
CASH FLOWS FROM INVESTING ACTIVITIES:					
Oil and gas properties, net	(153,699)	--	--	--	(153,699)
Proceeds from sale of assets	35	--	--	--	35
Additions to other property and equipment	(8,745)	(890)	(3,425)	--	(13,060)
Other	269	--	--	--	269
Cash (used in) provided by investing activities	(162,140)	(890)	(3,425)	--	(166,455)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from long-term borrowings	--	--	93,000	--	93,000
Payments on long-term borrowings	--	--	(103,500)	--	(103,500)
Cash paid for financing cost related to debt	(99)	--	(613)	--	(712)
Cash dividends paid on preferred stock	--	--	(546)	--	(546)
Cash paid for repurchase on senior notes	(1,020)	--	(7,235)	--	(8,255)
Exercise of stock options	--	--	2,191	--	2,191
Intercompany advances, net	(46,514)	(4,066)	(21,144)	71,724	--
Cash (used in) provided by financing activities	(47,633)	(4,066)	(37,847)	71,724	(17,822)
Effect of exchange rate changes on cash	(869)	--	--	--	(869)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,272)	(6,677)	38,152	--	21,203
CASH, BEGINNING OF PERIOD	(19,868)	7,200	12,668	--	--
CASH, END OF PERIOD	$ (30,140)	$ 523	$ 50,820	$ --	$ 21,203

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARY	PARENT	ELIMINATIONS	CONSOLIDATED
FOR THE THREE MONTHS ENDED MARCH 31, 2002:					
CASH FLOWS FROM OPERATING ACTIVITIES	$ 107,118	$ (7,847)	$ (9,096)	$ 27,122	$ 117,297
CASH FLOWS FROM INVESTING ACTIVITIES:					
Oil and gas properties, net	(84,175)	--	--	--	(84,175)
Proceeds from sale of assets	31	--	--	--	31
Additions to other property, plant and equipment and other	(2,051)	(268)	(5,303)	--	(7,622)
Other investments, net	--	--	1,807	--	1,807
Cash (used in) provided by investing activities	(86,195)	(268)	(3,496)	--	(89,959)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Cash paid for financing costs related to debt	--	--	(84)	--	(84)
Cash paid for repurchase of senior notes	--	--	(21,000)	--	(21,000)
Cash paid for repurchase premium on senior notes	--	--	(440)	--	(440)
Cash dividends paid on preferred stock	--	--	(2,587)	--	(2,587)
Exercise of stock options	--	--	1,181	--	1,181
Other	--	--	(50)	--	(50)
Intercompany advances, net	(38,654)	(1,463)	67,239	(27,122)	--
Cash (used in) provided by financing activities	(38,654)	(1,463)	44,259	(27,122)	(22,980)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,731)	(9,578)	31,667	--	4,358
CASH, BEGINNING OF PERIOD	(11,313)	19,714	109,193	--	117,594
CASH, END OF PERIOD	$ (29,044)	$ 10,136	$140,860	$ --	$ 121,952

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
($ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARY	PARENT	ELIMINATIONS	CONSOLIDATED
FOR THE THREE MONTHS ENDED MARCH 31, 2001:					
Net income (loss)	$ 70,889	$ 835	$ 70,288	$ (71,724)	$ 70,288
Other comprehensive income (loss) net of income tax -					
Foreign currency translation adjustments	(3,219)	--	--	--	(3,219)
Cumulative effect of accounting change for financial derivatives, net of income tax	(53,580)	--	--	--	(53,580)
Change in fair value of derivative instruments	42,138	--	--	--	42,138
Reclassification of settled contracts	18,326	--	--	--	18,326
Equity in net other comprehensive income (loss) of subsidiaries	--	--	3,665	(3,665)	--
Comprehensive income (loss)	$ 74,554	$ 835	$ 73,953	$ (75,389)	$ 73,953

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARY	PARENT	ELIMINATIONS	CONSOLIDATED
FOR THE THREE MONTHS ENDED MARCH 31, 2002:					
Net income (loss)	$ (27,240)	$ 118	$(27,586)	$ 27,122	$ (27,586)
Other comprehensive income (loss) net of income tax -					
Change in fair value of derivative instruments	(10,730)	--	--	--	(10,730)
Reclassification of settled contracts	(14,086)	--	--	--	(14,086)
Ineffectiveness portion of derivatives qualifying for hedge accounting	494	--	--	--	494
Equity in net other comprehensive income (loss) of subsidiaries	--	--	(24,322)	24,322	--
Comprehensive income (loss)	$ (51,562)	$ 118	$(51,908)	$ 51,444	$ (51,908)

6. SEGMENT INFORMATION

Chesapeake has two reportable segments under SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, consisting of exploration and production, and marketing. The reportable segment information can be derived from note 5 as Chesapeake Energy Marketing, Inc., which is our marketing segment, is the only non-guarantor subsidiary for all income statement periods presented.

7. SUBSEQUENT EVENT

On April 19, 2002, we entered into an agreement and plan of merger pursuant to which we will acquire Canaan Energy Corporation in a cash merger through a Chesapeake subsidiary. Under the agreement, all outstanding common shares of Canaan, other than the Canaan shares owned by Chesapeake and those that dissent, will be converted into the right to receive $18.00 per share in cash, and outstanding options to acquire Canaan common stock will be converted into the right to receive, for each share of Canaan common stock to be received upon exercise, the merger consideration less the per share exercise price and withholding taxes. We expect the aggregate net cash consideration for the merger will be $118 million, including the retirement of Canaan's outstanding indebtedness of approximately $33 million (net of stock option proceeds and working capital). The acquisition is subject to approval by Canaan's shareholders. Canaan's management and directors have agreed to vote their 1.2 million common shares in favor of the agreement. These shares, together with the Canaan shares we own, represent 37% of Canaan's outstanding common shares. The merger is expected to close in the third quarter of 2002. Under certain circumstances, Canaan has agreed to provide Chesapeake with a $5.0 million break-up fee in the event the transaction is not completed. We intend to pay for the transaction with cash on hand.

8. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards Nos. 141 and 142. SFAS No. 141, Business Combinations, requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142, Goodwill and Other Intangible Assets, changes the accounting for goodwill from an amortization method to an impairment-only approach and was effective January 2002. We have adopted these new standards, which have not had a significant effect on our results of operations or our financial position.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. We have not yet determined the effect of the adoption of SFAS No. 143 on our financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 was effective January 1, 2002. This statement supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and amends Accounting Principles Board Opinion No. 30 for the accounting and reporting of discontinued operations, as it relates to long-lived assets. Adoption of SFAS 144 did not affect our financial position or results of operations.

PART I. FINANCIAL INFORMATION

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

OVERVIEW

The following table sets forth certain information regarding the production volumes, oil and gas sales, average sales prices received and expenses for the periods indicated:

	QUARTER ENDED MARCH 31, 2001	QUARTER ENDED MARCH 31, 2002
NET PRODUCTION:		
Oil (mbbl)	686	830
Gas (mmcf)	36,040	36,933
Gas equivalent (mmcfe)	40,156	41,913
OIL AND GAS SALES ($ IN THOUSANDS):		
Oil	$ 19,904	$ 19,958
Gas	201,315	122,013
Total oil and gas sales	$ 221,219	$ 141,971
AVERAGE SALES PRICE:		
Oil ($ per bbl)	$ 29.01	$ 24.05
Gas ($ per mcf)	$ 5.59	$ 3.30
Gas equivalent ($ per mcfe)	$ 5.51	$ 3.39
EXPENSES ($ PER MCFE):		
Production expenses and taxes	$ 0.80	$ 0.65
General and administrative	$ 0.10	$ 0.10
Depreciation, depletion and amortization	$ 0.95	$ 1.16
NET WELLS DRILLED	81	57
NET WELLS AT END OF PERIOD	3,338	3,620

RESULTS OF OPERATIONS -- THREE MONTHS ENDED MARCH 31, 2002 ("CURRENT QUARTER") VS. MARCH 31, 2001 ("PRIOR QUARTER")

General. For the Current Quarter, Chesapeake had a net loss available to common shareholders of $30.1 million, or a loss of $0.18 per diluted common share, on total revenues of $89.8 million. This compares to net income available to common shareholders of $69.7 million, or $0.41 per diluted common share, on total revenues of $277.4 million during the Prior Quarter. The Current Quarter's net loss included, on a pre-tax basis, a non-cash $79.5 million risk management loss.

Oil and Gas Sales. During the Current Quarter, oil and gas sales decreased 36% to $142.0 million from $221.2 million in the Prior Quarter. For the Current Quarter, we produced 41.9 billion cubic feet equivalent, consisting of 0.8 million barrels of oil and 36.9 billion cubic feet of gas, compared to 0.7 mmbbl and 36.0 bcf, or 40.2 bcfe, in the Prior Quarter. The production increase is primarily the result of various acquisitions which occurred in late 2001 and successful drilling results, partially offset by the sale of our Canadian reserves effective October 1, 2001. Average oil prices realized were $24.05 per bbl in the Current Quarter compared to $29.01 per bbl in the Prior Quarter, a decrease of 17%. Average gas prices realized were $3.30 per thousand cubic feet in the Current Quarter compared to $5.59 per mcf in the Prior Quarter, a decrease of 41%.

The following table shows our production by region for the Prior Quarter and the Current Quarter:

	FOR THE THREE MONTHS ENDED MARCH 31,			
	2001		2002	
OPERATING AREAS	(MMCFE)	PERCENT	(MMCFE)	PERCENT
Mid-Continent	26,888	67%	31,793	76%
Gulf Coast	8,268	21	7,261	17
Canada	2,688	7	--	--
Permian Basin	1,559	4	2,064	5
Other areas	753	1	795	2
Total	40,156	100%	41,913	100%

Gas production represented approximately 88% of our total production volume on an equivalent basis in the Current Quarter, compared to 90% in the Prior Quarter.

For the Current Quarter, we realized an average price of $3.39 per mcfe, compared to $5.51 per mcfe in the Prior Quarter, including in each case the effects of hedging. Our hedging activities resulted in increased oil and gas revenues of $48.6 million, or $1.16 per mcfe, in the Current Quarter, compared to decreases in oil and gas revenues of $30.5 million, or $0.76 per mcfe, in the Prior Quarter.

Risk Management Loss. Chesapeake recognized a $79.5 million risk management loss in the Current Quarter, compared to no such income (loss) in the Prior Quarter. Risk management loss for the Current Quarter consisted of a $53.4 million loss related to changes in fair value of derivatives not designated as cash flow hedges, $25.1 million of reclassifications related to the settlement of such contracts, a $0.8 million loss associated with the ineffective portion of derivatives qualifying for hedge accounting and a $0.2 million loss associated with the portion of our interest rate swap that does not qualify for fair value hedge accounting.

Pursuant to SFAS 133, our cap-swaps, straddles, strangles, counter-swaps and basis protection swaps do not qualify for designation as cash flow hedges. There is also a portion of our interest rate swap that does not qualify as a fair value hedge. Therefore, changes in fair value of these instruments that occur prior to their maturity, together with any change in fair value of hedges resulting from ineffectiveness, are reported in the statement of operations as risk management income (loss). Amounts recorded in risk management income (loss) do not represent cash gains or losses. Rather, these amounts are temporary valuation swings in contracts or portions of contracts that are not entitled to receive hedge accounting treatment. All amounts initially recorded in this caption are ultimately reversed within this same caption and are included in oil and gas sales and interest expense, as applicable, over the respective contract terms. Detailed information about our oil and gas hedging positions appears in Item 3 - Quantitative and Qualitative Disclosures About Market Risk.

Oil and Gas Marketing Sales. We generated $27.3 million in oil and gas marketing sales for third parties in the Current Quarter, with corresponding oil and gas marketing expenses of $26.5 million, for a net margin of $0.8 million. This compares to sales of $56.2 million, expenses of $54.5 million, and a net margin of $1.7 million in the Prior Quarter. The decrease in marketing sales and cost of sales was due primarily to a decrease in oil and gas prices in the Current Quarter compared to the Prior Quarter, partially offset by a 25% increase in volumes marketed by Chesapeake Energy Marketing, Inc. in the Current Quarter.

Production Expenses. Production expenses, which include lifting costs and ad valorem taxes, increased to $22.1 million in the Current Quarter, a $4.3 million increase from the $17.8 million of production expenses incurred in the Prior Quarter. On a unit of production basis, production expenses were $0.53 and $0.44 per mcfe in the Current and Prior Quarters, respectively. The increase in costs on a per unit basis in the Current Quarter is due primarily to increased field service costs, higher production costs associated with properties acquired in 2001 and an increase in ad valorem taxes. We expect that lease operating expenses per mcfe for the remainder of 2002 will range from $0.50 to $0.55.

Production Taxes. Production taxes were $5.2 million and $14.3 million in the Current and Prior Quarters, respectively. On a per unit basis, production taxes were $0.12 per mcfe in the Current Quarter compared to $0.36 per mcfe in the Prior Quarter. The decrease in the Current Quarter was the result of decreased prices and new statutory exemptions on certain wells in Oklahoma and Texas. In general, production taxes are calculated using value-based formulas that produce higher per unit costs when oil and gas prices are higher. We expect production taxes for the remainder of 2002 to be approximately 7% of oil and gas sales revenues after excluding any impact from hedging.

General and Administrative. General and administrative expenses, which are net of capitalized internal costs, were $4.3 million in the Current Quarter compared to $4.0 million in the Prior Quarter.

Chesapeake follows the full-cost method of accounting under which all costs associated with property acquisition, exploration and development activities are capitalized. We capitalize internal costs that can be directly identified with our acquisition, exploration and development activities and do not include any costs related to production, general corporate overhead or similar activities. We capitalized $2.5 million and $1.8 million of internal costs in the Current Quarter and Prior Quarter, respectively, directly related to our oil and gas exploration and development efforts. We anticipate that general and administrative expenses for the remainder of 2002 will be between $0.10 and $0.11 per mcfe, which is approximately the same level as 2001 and the Current Quarter.

Oil and Gas Depreciation, Depletion and Amortization. Depreciation, depletion and amortization of oil and gas properties for the Current Quarter was $48.6 million, compared to $38.2 million in the Prior Quarter. The DD&A rate per mcfe, which is a function of capitalized costs, future development costs and the related underlying reserves in the periods presented, increased from $0.95 in the Prior Quarter to $1.16 per mcfe in the Current Quarter. We expect the DD&A rate for the remainder of 2002 to be between $1.15 and $1.25 per mcfe.

Depreciation and Amortization of Other Assets. Depreciation and amortization of other assets was $3.1 million in the Current Quarter, compared to $2.0 million in the Prior Quarter. The increase in the Current Quarter was primarily the result of higher depreciation recorded on recently acquired fixed assets. Other property and equipment costs are depreciated on both straight-line and accelerated methods. Buildings are depreciated on a straight-line basis over 31.5 years. Drilling rigs are depreciated on a straight-line basis over 12 years. All other property and equipment are depreciated over the estimated useful lives of the assets, which range from five to seven years. We expect depreciation and amortization of other assets to average between $0.06 and $0.08 per mcfe for the remainder of 2002.

Interest and Other Income. Interest and other income for the Current Quarter was $1.0 million compared to $0.6 million in the Prior Quarter. The increase was primarily the result of additional interest income from significant cash balances held during the Current Quarter. Also, the recognition of a $0.5 million gain on the sale of RAM Energy, Inc. notes was offset by a $0.6 million loss on the repurchase of our 7.875% senior notes.

Interest Expense. Interest expense increased to $27.0 million in the Current Quarter from $25.9 million in the Prior Quarter. The increase in the Current Quarter is due to a $166.6 million increase in average long-term borrowings in the Current Quarter compared to the Prior Quarter, partially offset by a decrease in the overall average interest rate. In addition to the interest expense reported, we capitalized $1.1 million of interest during the Current Quarter, compared to $0.9 million capitalized in the Prior Quarter, on significant investments in unproved properties that were not being currently depreciated, depleted or amortized and on which exploration activities were in progress. Interest is capitalized using the weighted average interest rate of our outstanding borrowings. We anticipate that capitalized interest for the remainder of 2002 will be between $3.0 million and $4.0 million.

Gothic Standby Credit Facility Costs. During the Prior Quarter, we obtained a standby commitment for a $275 million credit facility, consisting of a $175 million term loan and a $100 million revolving credit facility which, if needed, would have replaced our then existing revolving credit facility. The term loan was available to provide funds to repurchase any of Gothic Production Corporation's 11.125% senior secured notes tendered following the closing of the Gothic acquisition in January 2001 pursuant to a change-of-control offer to purchase. In February 2001, we purchased $1.0 million of notes tendered for 101% of such amount. We did not use the standby credit facility and the commitment terminated in February 2001. Chesapeake incurred $3.4 million of costs for the standby facility, which were recognized in the Prior Quarter.

Provision (Benefit) for Income Taxes. Chesapeake recorded an income tax benefit of $18.4 million in the Current Quarter, compared to income tax expense of $47.7 million in the Prior Quarter. Income tax expense for the Prior Quarter was comprised of $43.2 million related to our domestic operations and $4.5 million related to our Canadian operations which were sold on October 1, 2001. We anticipate that all 2002 income tax expense will be deferred.

CASH FLOWS FROM OPERATING, INVESTING, AND FINANCING ACTIVITIES

Cash Flows from Operating Activities. Cash provided by operating activities decreased 43% to $117.3 million during the Current Quarter compared to $206.3 million during the Prior Quarter. The decrease was due primarily to lower oil and gas prices realized during the Current Quarter.

Cash Flows from Investing Activities. Cash used in investing activities decreased to $90.0 million during the Current Quarter from $166.5 million in the Prior Quarter. During the Current Quarter we expended approximately $75.9 million to initiate drilling on 119 (57.4 net) wells and invested approximately $7.4 million in leasehold acquisitions. This compares to $95.5 million to initiate drilling on 163 (80.8 net) wells and $14.4 million to purchase leasehold in the Prior Quarter. During the Current Quarter, we had acquisitions of oil and gas properties of $0.9 million and no divestitures of oil and gas properties. This compares to cash used in acquisitions of oil and gas companies and properties of $44.0 million and divestitures of $0.1 million in the Prior Quarter. During the Current Quarter, we had additional investments in other assets of $7.4 million compared to $13.1 million in the Prior Quarter. The Current Quarter included additional investments in the common stock of two oil and gas companies totaling $2.4 million and $4.2 million in proceeds related to the sale of RAM Energy, Inc. notes.

Cash Flows from Financing Activities. There was $23.0 million of cash used in financing activities in the Current Quarter, compared to $17.8 million in the Prior Quarter. The activity in the Current Quarter reflects the repurchase of $21.0 million of our 7.875% senior notes, $1.2 million in cash received from the exercise of stock options, and $2.6 million used to pay dividends on the 6.75% preferred stock. The activity in the Prior Quarter includes $10.5 million in net reductions in long-term borrowings, $8.3 million used to repurchase long-term debt, and $2.2 million in cash received from the exercise of stock options.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Chesapeake had working capital of $92.9 million at March 31, 2002, including $122.0 million in cash. Additionally, we have a $225 million revolving bank credit facility (with a committed borrowing base of $225 million) which matures in September 2003. As of March 31, 2002 we had no outstanding borrowings under the facility and were using $21.3 million of the facility to secure various letters of credit. We believe we will have adequate resources, including operating cash flows, working capital and proceeds from our revolving bank credit facility, to fund our capital expenditure budget for exploration and development activities during the remainder of 2002, which is currently estimated to be approximately $330 million before the pending Canaan acquisition, and $450 million pro forma for the Canaan acquisition. Further, our drilling program is largely discretionary and can be adjusted to match changing circumstances. Based on our current cash flow assumptions and giving effect to the Canaan acquisition, we expect operating cash flow to reach $400 million during 2002. Any operating cash flow not needed to fund our drilling program will be available for acquisitions, debt repayments or other general corporate purposes in 2002.

A significant portion of our liquidity is concentrated in cash and cash equivalents, including restricted cash, and derivative instruments that enable us to hedge a portion of our exposure to price volatility from producing oil and natural gas. These arrangements expose us to credit risk from our counterparties. Other financial instruments which potentially subject us to concentrations of credit risk consist principally of investments in debt instruments and accounts receivables. Our accounts receivable are primarily from purchasers of oil and natural gas products and exploration and production companies which own interests in properties we operate. The industry concentration has the potential to impact our overall exposure to credit risk, either positively or negatively, in that our customers may be similarly affected by changes in economic, industry or other conditions. We generally require letters of credit for receivables from customers which are judged to have sub-standard credit, unless the credit risk can otherwise be mitigated. Cash and cash equivalents are deposited with major banks or institutions with high credit ratings.

Our liquidity is not dependent on the use of off-balance sheet financing arrangements, such as the securitization of receivables or obtaining access to assets through special purpose entities. We have not relied on off-balance sheet financing arrangements in the past and we do not intend to rely on such arrangements in the future as a source of liquidity. We are not a commercial paper issuer.

Contractual Obligations and Commercial Commitments

We have a $225 million revolving bank credit facility (with a committed borrowing base of $225 million) which matures in September 2003. As of March 31, 2002, we had no outstanding borrowings under this facility and were using $21.3 million of the facility to secure various letters of credit. Borrowings under the facility are collateralized by certain producing oil and gas properties and bear interest at either the reference rate of Union Bank of California, N.A., or London Interbank Offered Rate (LIBOR), at our option, plus a margin that varies according to total facility usage. The collateral value and borrowing base are redetermined periodically. The unused portion of the facility is subject to an annual commitment fee of 0.50%. Interest is payable quarterly.

The credit facility agreement contains various covenants and restrictive provisions including incurring additional indebtedness, selling properties, paying dividends, purchasing or redeeming our capital stock, making investments or loans or purchasing certain of our senior notes, creating liens, and making acquisitions. The credit facility agreement requires us to maintain a current ratio of at least 1 to 1 and a fixed charge coverage ratio of at least 2.5 to 1. If we should fail to perform our obligations under these and other covenants, the revolving credit commitment could be terminated and any outstanding borrowings under the facility could be declared immediately due and payable. Such acceleration, if involving a principal amount of $10 million or more, would constitute an event of default under our senior note indentures, which could in turn result in the acceleration of our senior note indebtedness. The credit facility agreement also has cross default provisions that apply to other indebtedness we may have with an outstanding principal amount in excess of $5.0 million.

As of March 31, 2002, senior notes represented $1.3 billion of our long-term debt and consisted of the following: $800.0 million principal amount of 8.125% senior notes due 2011, $250.0 million principal amount of 8.375% senior notes due 2008, $129.0 million principal amount of 7.875% senior notes due 2004 and $142.7 million principal amount of 8.5% senior notes due 2012. There are no scheduled principal payments required on any of the senior notes until March 2004, when $128.0 million is due, giving effect to the repurchase and retirement of $21.0 million of our 7.875% senior notes in the Current Quarter and an additional $1.0 million in April 2002. Debt ratings for the senior notes are B1 by Moody's Investor Service, B+ by Standard & Poor's Ratings Services and BB- by Fitch Ratings as of March 31, 2002. Debt ratings for our secured bank credit facility are Ba3 by Moody's Investor Service, BB by Standard & Poor's Ratings Services and BB+ by Fitch Ratings.

Our senior notes are unsecured senior obligations of Chesapeake and rank equally with all of our other unsecured indebtedness. All of our wholly owned subsidiaries except Chesapeake Energy Marketing, Inc. guarantee the notes. The 7.875% senior notes are redeemable at our option at any time prior to March 15, 2004 at the make-whole price determined in accordance with the indenture. On or after March 15, 2004, we may redeem the 8.5% senior notes at the redemption prices set forth in the indenture and prior to such date pursuant to make-whole provisions in the indenture. We may redeem the 8.125% senior notes at any time on or after April 1, 2006 at the redemption prices set forth in the indenture and prior to such date pursuant to make-whole provisions in the indenture. We may redeem the 8.375% senior notes at any time on or after November 1, 2005 at the redemption prices set forth in the indenture and prior to such date pursuant to make-whole provisions in the indenture. If we repurchase at least an additional $53 million of the 7.875% senior notes by August 31, 2003, we may extend the bank credit facility until June 2005 for an amount equal to the total revolving credit facility commitment less the outstanding amount of the 7.875% senior notes plus $50 million.

The indentures for the 8.125% and 8.375% senior notes contain covenants limiting our ability and our restricted subsidiaries' ability to incur additional indebtedness; pay dividends on our capital stock or redeem, repurchase or retire our capital stock or subordinated indebtedness; make investments and other restricted payments; create restrictions on the payment of dividends or other amounts to us from our restricted subsidiaries; incur liens; engage in transactions with affiliates; sell assets; and consolidate, merge or transfer assets. The debt incurrence covenants do not affect our ability to borrow under or expand our secured credit facility. As of March 31, 2002, we estimate that secured commercial bank indebtedness of approximately $397 million could have been incurred under the most restrictive indenture covenant. The indenture covenants do not apply to Chesapeake Energy Marketing, Inc., an unrestricted subsidiary.

Some of our commodity price and interest rate risk management arrangements require us to deliver cash collateral or other assurances of performance to the counterparties in the event that our payment obligations with respect to our commodity price and interest rate risk management transactions exceed certain levels. At March 31, 2002, we had posted $20.0 million of collateral with one of our counterparties. Future collateral requirements are uncertain and will depend on arrangements with our counterparties and the level of volatility in natural gas and oil prices and interest rates.

Investing and Financing Transactions

In private transactions completed in the fourth quarter of 2001 and the Current Quarter, we acquired 7.65% of the outstanding common stock of Canaan Energy Corporation, an oil and gas exploration and production company, for cash consideration totaling $4.0 million, or $12.00 per share. On April 19, 2002, we entered into an agreement and plan of merger pursuant to which we will acquire Canaan Energy Corporation in a cash merger through a Chesapeake subsidiary. Under the agreement, all outstanding common shares of Canaan, other than the Canaan shares owned by Chesapeake and those that dissent, will be converted into the right to receive $18.00 per share in cash, and outstanding options to acquire Canaan common stock will be converted into the right to receive, for each share of Canaan common stock to be received upon exercise, the merger consideration less the per share exercise price and withholding taxes. We expect the aggregate net cash consideration for the merger will be $118 million, including the retirement of Canaan's outstanding indebtedness of approximately $33 million (net of stock option proceeds and working capital). The acquisition is subject to approval by Canaan's shareholders. Canaan's management and directors have agreed to vote their 1.2 million common shares in favor of the agreement. These shares, together with the Canaan shares we own, represent 37% of Canaan's outstanding common shares. The merger is expected to close in the third quarter of 2002. Under certain circumstances, Canaan has agreed to provide Chesapeake with a $5.0 million break-up fee in the event the transaction is not completed. We intend to pay for the transaction with cash on hand.

We value Canaan's estimated 100 bcfe of proved reserves at $1.14 per mcfe after allocation of $4 million of the purchase price to Canaan's undeveloped leasehold inventory and other assets. Canaan's proved reserves are 91% natural gas, 74% proved developed and are located almost exclusively in Chesapeake's core Mid-Continent operating area. Based on current production rates of 21,000 mcfe per day (approximately 8 bcfe per year), Canaan's reserves-to-production ratio is 12.5.

In the Current Quarter, we purchased and subsequently retired $21.0 million of our 7.875% senior notes due 2004 for total consideration of $21.9 million, including accrued interest of $0.5 million and $0.4 million of redemption premium. In April 2002, we purchased and retired an additional $1.0 million of these notes for $1.0 million including accrued interest.

See Note 2 of the notes to consolidated financial statements included in this report for a discussion of our hedging activities and financial instruments.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 8 of the notes to the consolidated financial statements included in this report for a summary of recently issued accounting standards.

FORWARD-LOOKING STATEMENTS

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements give our current expectations or forecasts of future events. They include statements regarding oil and gas reserve estimates, planned capital expenditures, the drilling of oil and gas wells and future acquisitions, expected oil and gas production, cash flow and anticipated liquidity, business strategy and other plans and objectives for future operations, expected future expenses and utilization of net operating loss carryforwards. Statements concerning the fair values of derivative contracts and their estimated contribution to our future results of operations are based upon market information as of a specific date. These market prices are subject to significant volatility.

Although we believe the expectations and forecasts reflected in these and other forward-looking statements are reasonable, we can give no assurance they will prove to have been correct. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Factors that could cause actual results to differ materially from expected results are described under "Risk Factors" in Item 1 of our Form 10-K for the year ended December 31, 2001. These factors include:

- the volatility of oil and gas prices,
- our substantial indebtedness,
- the cost and availability of drilling and production services,
- our commodity price risk management activities, including counterparty contract performance risk,
- uncertainties inherent in estimating quantities of oil and gas reserves, projecting future rates of production and the timing of development expenditures,
- our ability to replace reserves,
- the availability of capital,
- uncertainties in evaluating oil and gas reserves of acquired properties and associated potential liabilities,
- drilling and operating risks,
- our ability to generate future taxable income sufficient to utilize our NOLs before expiration,
- future ownership changes which could result in additional limitations to our NOLs,
- adverse effects of governmental and environmental regulation,
- losses possible from pending or future litigation,
- the strength and financial resources of our competitors, and
- the loss of officers or key employees.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

OIL AND GAS HEDGING ACTIVITIES

Our results of operations and operating cash flows are impacted by changes in market prices for oil and gas. To mitigate a portion of this exposure to adverse market changes, we have entered into derivative instruments. As of March 31, 2002, our derivative instruments were comprised of swaps, collars, cap-swaps, straddles, strangles and basis protection swaps. These instruments allow us to predict with greater certainty the effective oil and gas prices to be received for our hedged production.

- For swap instruments, we receive a fixed price for the hedged commodity and pay a floating market price, as defined in each instrument, to the counterparty. The fixed-price payment and the floating-price payment are netted, resulting in a net amount due to or from the counterparty.

- Collars contain a fixed floor price (put) and ceiling price (call). If the market price exceeds the call strike price or falls below the put strike price, then we receive the fixed price and pay the market price. If the market price is between the call and the put strike price, then no payments are due from either party.

- For cap-swaps, we receive a fixed price for the hedged commodity and pay a floating market price. The fixed price received by Chesapeake includes a premium in exchange for a "cap" limiting the counterparty's exposure.

- For straddles, Chesapeake receives a premium from the counterparty in exchange for the sale of a call and a put option which establish a fixed price. To the extent that the market price differs from the established fixed price, Chesapeake pays the counterparty.

- For strangles, Chesapeake receives a premium from the counterparty in exchange for the sale of a call and a put option. If the market price exceeds the fixed price of the call option or falls below the fixed price of the put option, then Chesapeake pays the counterparty. If the market price settles between the fixed price of the call and put option, no payment is due from Chesapeake.

- Basis protection swaps are arrangements that guarantee a price differential of oil and gas from a specified delivery point. Chesapeake receives a payment from the counterparty if the price differential is greater than the stated terms of the contract and pays the counterparty if the price differential is less than the stated terms of the contract.

From time to time, we close certain swap transactions designed to hedge a portion of our oil and natural gas production by entering into a counter-swap instrument. Under the counter-swap we receive a floating price for the hedged commodity and pay a fixed price to the counterparty. To the extent the counter-swap is designed to lock the value of an existing SFAS 133 cash flow hedge, the net value of the swap and the counter-swap is frozen and shown as a derivative receivable or payable in the consolidated balance sheets. At the same time, the original swap is designated as a non-qualifying cash flow hedge under SFAS 133.

Pursuant to SFAS 133, our cap-swaps, straddles, strangles, counter-swaps and basis protection swaps do not qualify for designation as cash flow hedges. Therefore, changes in the fair value of these instruments that occur prior to their maturity, together with any changes in fair value of cash flow hedges resulting from ineffectivness, are reported in the consolidated statements of operations as risk management income (loss). Amounts recorded in risk management income (loss) do not represent cash gains or losses. Rather, these amounts are temporary valuation swings in contracts or portions of contracts that are not entitled to receive SFAS 133 cash flow hedge accounting treatment. All amounts initially recorded in this caption are ultimately reversed within this same caption and included in oil and gas sales over the respective contract terms.

As of March 31, 2002, we had the following open oil and gas derivative instruments designed to hedge a portion of our gas production for periods after March 2002:

	VOLUME	AVERAGE STRIKE PRICE	WEIGHTED-AVERAGE PUT STRIKE PRICE	WEIGHTED-AVERAGE CALL STRIKE PRICE	WEIGHTED-AVERAGE DIFFERENTIAL	SFAS 133 HEDGE	PREMIUMS RECEIVED	FAIR VALUE AT MARCH 31, 2002 ($ IN THOUSANDS)
NATURAL GAS (mmbtu):								
Swaps:								
2002................	29,560,000	$ 2.85	$ --	$ --	$ --	Yes	$ --	$(16,240)
2003................	2,700,000	3.03	--	--	--	Yes	--	(2,264)
Cap-Swaps:								
2002................	63,870,000	4.54	3.54	--	--	No	--	37,753
2003................	51,100,000	3.60	2.60	--	--	No	--	(11,804)
Collars:								
2002................	9,780,000	--	4.00	5.42	--	Yes	--	7,046
Straddles:								
2002................	24,420,000	--	2.37	2.37	--	No	12,430	(25,825)
Strangles:								
2003................	14,600,000	--	3.20	3.70	--	No	12,629	(14,414)
2004................	14,640,000	--	3.40	3.90	--	No	15,884	(16,590)
Basis Protection Swaps:								
2003................	91,250,000	--	--	--	(0.15)	No	--	(1,704)
2004................	91,500,000	--	--	--	(0.15)	No	--	(2,154)
2005................	91,250,000	--	--	--	(0.16)	No	--	(2,364)
Counter-Swaps:								
2003................	16,500,000	3.68	--	--	--	No	--	2,239
Locked Swaps:								
2002................	--	--	--	--	--	No	--	25,214
2003................	--	--	--	--	--	No	--	18,502
TOTAL GAS							40,943	(2,605)
OIL (bbls):								
Cap-Swaps:								
2002................	1,650,000	24.97	20.19	--	--	No	--	(2,286)
Locked-Swaps:								
2002................	--	--	--	--	--	No	--	1,404
TOTAL OIL	--	--	--	--	--	--	--	(882)
TOTAL GAS AND OIL							$40,943(a)	$(3,487)(a)

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(a) After adjusting for the $40.9 million premium paid to Chesapeake by the counterparty at the inception of the straddle and strangle contracts (which is recorded in cash provided by operating activities), the net value of the combined hedging portfolio at March 31, 2002 was $37.5 million.

We have established the fair value of all derivative instruments using estimates of fair value reported by our counterparties. The actual contribution to our future results of operations will be based on the market prices at the time of settlement and may be more or less than the fair value estimates used at March 31, 2002.

Additional information concerning the fair value of our oil and gas derivative instruments is as follows ($ in thousands):

Fair value of contracts outstanding at January 1, 2002	$ 157,309
Change in fair value of contracts during period	(69,712)
Contracts realized or otherwise settled during the period	(48,554)
Fair value of new contracts when entered into during the period	(42,530)
Changes in fair values attributable to changes in valuation techniques and assumptions	--
Fair value of contracts outstanding at March 31, 2002	$ (3,487)

Risk management loss related to our oil and gas derivatives for the three months ended March 31, 2002 is comprised of the following ($ in thousands):

Risk Management Loss:	
Change in fair value of derivatives not qualifying for hedge accounting	$ (53,414)
Reclassification of settled contracts	(25,077)
Ineffective portion of derivatives qualifying for hedge accounting	(824)
Total	$ (79,315)

Although derivatives often fail to achieve 100% effectiveness for accounting purposes, our derivative instruments continue to be highly effective in achieving the risk management objectives for which they were intended.

The change in the fair value of our derivative instruments since January 1, 2002 resulted from an increase in market prices for natural gas and crude oil. Derivative instruments reflected as current in the consolidated balance sheet represent the estimated fair value of derivative instrument settlements scheduled to occur over the subsequent twelve-month period based on market prices for oil and gas as of the consolidated balance sheet dates. The derivative settlement amounts are not due and payable until the month in which the related underlying hedged transaction occurs.

We expect to transfer approximately $12.9 million of the balance in accumulated other comprehensive income, based upon the market prices at March 31, 2002, to earnings during the next 12 months when the forecasted transactions actually occur. All forecasted transactions hedged as of March 31, 2002 are expected to mature by December 2005.

INTEREST RATE

We also utilize hedging strategies to manage interest rate exposure. In March 2002, we entered into an interest rate swap to convert a portion of our fixed rate debt to floating rate debt. The terms of the swap agreement are as follows:

MONTHS	NOTIONAL AMOUNT	FIXED RATE	FLOATING RATE
March 2002 - March 2004	$200,000,000	7.875%	U.S. six-month LIBOR in arrears plus 298.25 basis points

If the floating rate is less than the fixed rate, the counterparty will pay us accordingly. If the floating rate exceeds the fixed rate, we will pay the counterparty. Payments under the interest rate swap coincide with the semi-annual interest payments on our 7.875% senior notes which are due on September 15 and March 15 of each year beginning September 15, 2002.

A portion of the interest rate swap was entered into to convert $129 million of the 7.875% senior notes from fixed rate debt to variable rate debt. Under SFAS 133, a hedge of the interest rate risk in a recognized fixed rate liability can be designated as a fair value hedge. Accordingly, the mark-to-market value of the swap is recorded on the consolidated balance sheets as an asset or liability with a corresponding increase or decrease to the debt's carrying value.

The remaining $71 million of the interest rate swap has not been designated as a fair value hedge. The mark-to-market value of this portion of the instrument is recorded as a derivative asset or liability on the consolidated balance sheets with the offsetting amount reflected in risk management income (loss) on the consolidated statements of operations. The amount recorded in risk management income (loss) will be reversed and reflected in interest expense when the swap is settled.

The estimated fair value of the interest rate swap at March 31, 2002 was a liability of approximately $0.4 million comprised of $0.2 million reflected as risk management loss and $0.2 million reflected as a reduction to long-term debt. Results from interest rate hedging transactions are reflected as adjustments to interest expense in the corresponding months covered by the swap agreement.

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

	MARCH 31, 2002							
	YEARS OF MATURITY							
	2002	2003	2004	2005	2006	THEREAFTER	TOTAL	FAIR VALUE
	($ IN MILLIONS)							
LIABILITIES:								
Long-term debt, including current portion--fixed rate	$ 0.4	$ --	$ 129.0	$ --	$ --	$ 1,192.6	$1,322.0(1)	$1,322.2
Average interest rate	9.1%	--	7.9%	--	--	8.2%	8.2%	8.2%
Long-term debt--variable rate	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
Average interest rate	--	--	--	--	--	--	--	--

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(1) This amount does not include the discount of ($13.0) million included in long-term debt and the value of the interest rate swap of ($0.2) million which qualifies for SFAS 133 fair value hedge accounting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to ordinary routine litigation incidental to our business, none of which is expected to have a material adverse effect on Chesapeake. In addition, Chesapeake is a defendant in other pending actions which are described in Note 3 of the notes to the consolidated financial statements included in this report and Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2001.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

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

Not applicable

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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

EXHIBIT NUMBER	DESCRIPTION
4.6.1	Consent and waiver letter dated April 15, 2002 with respect to Second Amended and Restated Credit Agreement, dated as of June 11, 2001, among Chesapeake Energy Corporation, Chesapeake Exploration Limited Partnership, as Borrower, Bear Stearns Corporate Lending Inc., as Syndication Agent, Union Bank of California, N.A., as Administrative Agent and Collateral Agent, and other lenders party thereto.
10.1.11	Registrant's 2002 Nonqualified Stock Option Plan

(b) Reports on Form 8-K

During the quarter ended March 31, 2002, we filed the following current reports on Form 8-K:

On January 22, 2002, we filed a current report on Form 8-K reporting under Item 5 that we had issued a press release declaring a quarterly cash dividend on our preferred stock.

On February 5, 2002 we filed a current report on Form 8-K reporting under Item 5 that we had issued a press release announcing fourth quarter and 2001 full-year earnings release and conference call dates.

On February 21, 2002, we filed a current report on Form 8-K reporting under Item 5 that we had issued a press release announcing strong 2001 results with cash flow, EBITDA and production setting records. The press release also contained information on 2001 finding costs, proved reserves, our hedging program, exploration activities and an overview of results for the past three years. We furnished under Item 9 updates to our full year 2002 forecasts, cap-ex budget and balance sheet goals.

On March 12, 2002, we filed a current report on Form 8-K reporting under Item 5 that we had issued a press release announcing a proposal to acquire Canaan Energy Corporation for $12.00 per share in cash.

On March 18, 2002, we filed a current report on Form 8-K reporting under Item 5 that we had issued a press release announcing that we were deferring our tender offer for the outstanding shares of Canaan Energy Corporation pending discussions with Canaan management.

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)

By: /s/ AUBREY K. MCCLENDON

Aubrey K. McClendon
Chairman and Chief Executive Officer

By: /s/ MARCUS C. ROWLAND

Marcus C. Rowland
Executive Vice President and
Chief Financial Officer

Date: May 15, 2002

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
4.6.1	Consent and waiver letter dated April 15, 2002 with respect to Second Amended and Restated Credit Agreement, dated as of June 11, 2001, among Chesapeake Energy Corporation, Chesapeake Exploration Limited Partnership, as Borrower, Bear Stearns Corporate Lending Inc., as Syndication Agent, Union Bank of California, N.A., as Administrative Agent and Collateral Agent, and other lenders party thereto.
10.1.11	Registrant's 2002 Nonqualified Stock Option Plan

EXHIBIT 4.6.1

UNION BANK OF CALIFORNIA, N.A.
4200 LINCOLN PLAZA
500 NORTH AKARD
DALLAS, TEXAS 75201

April 15, 2002

Chesapeake Energy Corporation
Chesapeake Exploration Limited Partnership
6100 North Western Avenue
Oklahoma City, Oklahoma 73118

Re: Second Amended and Restated Credit Agreement dated as of June 11, 2001 (as amended, supplemented or restated, the "Credit Agreement"), by and among Chesapeake Exploration Limited Partnership, an Oklahoma limited partnership ("Borrower"), Chesapeake Energy Corporation, an Oklahoma corporation ("Company"), Bear Stearns Corporate Lending Inc., as syndication agent ("Syndication Agent"), Union Bank of California, N.A., as administrative agent and collateral agent ("Administrative Agent"), and the several banks and other financial institutions or entities from time to time parties thereto ("Lenders")

Ladies and Gentlemen:

Reference is hereby made to the Credit Agreement. Terms which are defined in the Credit Agreement and not otherwise defined herein are used herein with the meanings given them in the Credit Agreement.

Borrower and Company have informed Administrative Agent and Lenders that Company intends to acquire Canaan Energy Corporation, an Oklahoma corporation ("Canaan"), by merging a Subsidiary of Company with Canaan for cash consideration (including, without limitation, payments to acquire outstanding shares of Canaan's Capital Stock and payments to retire Indebtedness) not to exceed the amount of $145,000,000 (the "Canaan Acquisition").

Borrower and Company have requested that Administrative Agent and Lenders consent to the Canaan Acquisition. Accordingly, subject to the terms and provisions hereof, Administrative Agent and Lenders hereby: (i) consent to the Canaan Acquisition and (ii) waive any violations of the Credit Agreement resulting therefrom; provided that (1) at the time of the Canaan Acquisition, no Default or Event of Default has occurred which is continuing, (2) the Canaan Acquisition shall be approved by the Board of Directors of Company, (3) the Subsidiary surviving the Canaan Acquisition shall be (or become) a Subsidiary Guarantor under the Credit

Agreement pursuant to Section 6.9(b) thereof, (4) the Canaan Acquisition shall be consummated on or before August 31, 2002, (5) cash consideration (including, without limitation, payments to acquire outstanding shares of Canaan's Capital Stock and payments to retire Indebtedness) to consummate the Canaan Acquisition shall not exceed the amount of $145,000,000, (6) contemporaneously with the consummation of the Canaan Acquisition all Indebtedness under that certain Restated and Consolidated Credit Agreement dated as of October 23, 2000 among Canaan, Bank One, Oklahoma, N.A. and the other lenders party thereto shall be paid in full, and (7) except as otherwise provided herein, nothing in this Letter Agreement shall allow any Person to make any other new Investments not allowed pursuant to Section 7.7 of the Credit Agreement. The foregoing limitations shall not be deemed to restrict Investments otherwise allowed under clause (n) of Section 7.7 of the Credit Agreement.

The Credit Agreement is hereby ratified and confirmed in all respects. Except as expressly set forth above, the execution, delivery and effectiveness of this Letter Agreement shall not operate as a waiver of any right, power or remedy of Administrative Agent or Lenders under the Credit Agreement, the Notes, or any other Loan Document, nor constitute a waiver of any provision of the Credit Agreement, the Notes, or any other Loan Document.

By its execution below, each Guarantor hereby (i) consents to the provisions of this Letter Agreement and the transactions contemplated herein, (ii) ratifies and confirms the Guarantee Agreement dated as of June 11, 2001 made by it for the benefit of Administrative Agent and Lenders and the other Loan Documents executed pursuant to the Credit Agreement (Carmen Acquisition Corp. and Sap Acquisition Corp. having become parties thereto by execution and delivery of that certain Assumption Agreement of even date herewith), (iii) agrees that all of its respective obligations and covenants thereunder shall remain unimpaired by the execution and delivery of this Letter Agreement and the other documents and instruments executed in connection herewith, and (iv) agrees that the Guarantee Agreement and such other Loan Documents shall remain in full force and effect.

This Letter Agreement is a "Loan Document" as defined and described in the Credit Agreement and all of the terms and provisions of the Credit Agreement relating to Loan Documents shall apply hereto. This Letter Agreement may be executed in multiple counterparts, all of which shall constitute one Letter Agreement. This Letter Agreement may be validly executed by facsimile or other electronic transmission.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK.]

Please execute a copy of this Letter Agreement in the space provided below to evidence your agreement to and acknowledgment of the foregoing.

Very truly yours,

UNION BANK OF CALIFORNIA, N.A.
Administrative Agent, Collateral Agent
and Lender

By: /s/ RANDALL OSTERBERG

Name: Randall Osterberg
Title: Senior Vice President

By: /s/ ALI AHMED

Name: Ali Ahmed
Title: Vice President

ACKNOWLEDGED AND AGREED to as of the date first written above:

BORROWER:

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP

By: Chesapeake Operating, Inc., its general partner

By: /s/ MARTHA A. BURGER

Name: Martha A. Burger
Title: Treasurer & Sr. Vice President Human Resources

GUARANTORS:

CHESAPEAKE ENERGY CORPORATION

By: /s/ MARTHA A. BURGER

Name: Martha A. Burger
Title: Treasurer & Sr. Vice President Human Resources

THE AMES COMPANY, INC.

By: /s/ MARTHA A. BURGER

Name: Martha A. Burger
Title: Treasurer

CHESAPEAKE ACQUISITION CORPORATION

By: /s/ MARTHA A. BURGER

Name: Martha A. Burger
Title: Treasurer

CHESAPEAKE ENERGY LOUISIANA CORPORATION

By: /s/ MARTHA A. BURGER

Name: Martha A. Burger
Title: Treasurer

CHESAPEAKE OPERATING, INC.

By: /s/ MARTHA A. BURGER

Name: Martha A. Burger
Title: Treasurer & Sr. Vice President Human Resources

CHESAPEAKE PANHANDLE LIMITED PARTNERSHIP

By: CHESAPEAKE OPERATING, INC., its General Partner

By: /s/ MARTHA A. BURGER

Name: Martha A. Burger
Title: Treasurer & Sr. Vice President Human Resources

CHESAPEAKE ROYALTY COMPANY

By: /s/ MARTHA A. BURGER

Name: Martha A. Burger
Title: Treasurer

CHESAPEAKE-STAGHORN ACQUISITION L .P.

By: CHESAPEAKE OPERATING, INC., its General Partner

By: /s/ MARTHA A. BURGER

Name: Martha A. Burger
Title: Treasurer & Sr. Vice President Human Resources

CHESAPEAKE LOUISIANA, L.P.

By: CHESAPEAKE OPERATING, INC., its General Partner

By: /s/ MARTHA A. BURGER

Name: Martha A. Burger
Title: Treasurer & Sr. Vice President Human Resources

GOTHIC ENERGY CORPORATION

By: /s/ MARTHA A. BURGER

Name: Martha A. Burger
Title: Treasurer

GOTHIC PRODUCTION CORPORATION

By: /s/ MARTHA A. BURGER

Name: Martha A. Burger
Title: Treasurer

NOMAC DRILLING CORPORATION

By: /s/ MARTHA A. BURGER

Name: Martha A. Burger
Title: Treasurer

CARMEN ACQUISITION CORP.

By: /s/ MARTHA A. BURGER

Name: Martha A. Burger
Title: Treasurer

SAP ACQUISITION CORP.

By: /s/ MARTHA A. BURGER

Name: Martha A. Burger
Title: Treasurer

CHESAPEAKE MOUNTAIN FRONT CORP.

By: /s/ MARTHA A. BURGER

Name: Martha A. Burger
Title: Treasurer

LENDERS:

BANK OF OKLAHOMA, N.A.

By: /s/ JOHN N. HUFF

Name: John N. Huff
Title: Vice President

BANK OF SCOTLAND

By: /s/ JOSEPH FRATUS

Name: Joseph Fratus
Title: Vice President

BEAR STEARNS CORPORATE LENDING INC.

By: /s/ VICTOR BULZACCHELLI

Name: Victor Bulzacchelli
Title: Authorized Agent

BNP PARIBAS

By: /s/ BRIAN M. MALONE

Name: Brian M. Malone
Title: Managing Director

By: /s/ BETSY JOCHER

Name: Betsy Jocher
Title: Vice President

COMERICA BANK - TEXAS

By: /s/ PETER L. SEFZIK

Name: Peter L. Sefzik
Title: Assistant Vice President

COMPASS BANK

By: /s/ KATHLEEN J. BOWEN

Name: Kathleen J. Bowen
Title: Vice President

CREDIT AGRICOLE INDOSUEZ

By:

Name:
Title:

NATEXIS BANQUES POPULAIRES

By: /s/ DONOVAN C. BROUSSARD

Name: Donovan C. Broussard
Title: Vice President

By: /s/ LOUIS P. LAVILLE, III

Name: Louis P. Laville, III
Title: Vice President and Group Manager

PNC BANK, NATIONAL ASSOCIATION

By: /s/ DOUG CLARK

Name: Doug Clark
Title: Vice President

RZB FINANCE LLC

By: /s/ F. DIETER BEINTREXLER

Name: Dieter Beintrexler
Title: President

By: /s/ FRANK J. YAUTZ

Name: Frank J. Yautz
Title: First Vice President

SUMITOMO MITSUI BANKING CORPORATION

By: /s/ WILLIAM M. GINN

Name: William M. Ginn
Title: General Manager

TORONTO DOMINION (TEXAS), INC.

By: /s/ ANN S. SLANIS

Name: Ann S. Slanis
Title: Vice President

U.S. BANK NATIONAL ASSOCIATION

By:

Name:
Title:

WASHINGTON MUTUAL BANK, FA

By: /s/ MARK ISENSEE

Name: Mark Isensee
Title: Vice President

CREDIT LYONNAIS NEW YORK BRANCH

By:

Name:
Title:

EXHIBIT 10.1.11

CHESAPEAKE ENERGY CORPORATION

2002 NONQUALIFIED STOCK OPTION PLAN

CHESAPEAKE ENERGY CORPORATION
2002 NONQUALIFIED STOCK OPTION PLAN

Table of Contents

ARTICLE I

PURPOSE

SECTION 1.1 Purpose. This Stock Option Plan is established by Chesapeake Energy Corporation (the "Company") to create incentives which are designed to motivate Employees and Consultants to put forth maximum effort toward the success and growth of the Company and to enable the Company to attract and retain experienced individuals who by their position, ability and diligence are able to make important contributions to the Company's success. Toward these objectives, the Plan provides for the granting of Options to Employees and Consultants on the terms and subject to the conditions set forth in the Plan.

SECTION 1.2 Establishment. The Plan is effective as of March 1, 2002 and for a period of 10 years from such date. The Plan will terminate on February 29, 2012; however, it will continue in effect until all matters relating to the exercise of Options and administration of the Plan have been settled.

SECTION 1.3 Shares Subject to the Plan. Subject to Articles IV, VII and IX of this Plan, shares of stock covered by Options shall consist of Four Million (4,000,000) shares of Common Stock.

ARTICLE II

DEFINITIONS

SECTION 2.1 "Board" means the Board of Directors of the Company.

SECTION 2.2 "Code" means the Internal Revenue Code of 1986, as amended. Reference in the Plan to any Section of the Code shall be deemed to include any amendments or successor provisions to such Section and any regulations under such Section.

SECTION 2.3 "Committee" has the meaning set forth in Section 3.1.

SECTION 2.4 "Common Stock" means the common stock, par value $.01 per share, of the Company and, after substitution, such other stock as shall be substituted therefor as provided in Article VII or Article IX of the Plan.

SECTION 2.5 "Consultant" means any person who is engaged by the Company, a subsidiary or a partnership or limited liability company which the Company controls to render consulting or advisory services.

SECTION 2.6 "Date of Grant" means the date on which the granting of an Option is authorized by the Committee or such later date as may be specified by the Committee in such authorization.

SECTION 2.7 "Disability" has the meaning set forth in Section 22(e)(3) of the Code.

SECTION 2.8 "Eligible Person" means any Employee or Consultant.

SECTION 2.9 "Employee" means any employee of the Company, a Subsidiary or a partnership or limited liability company which the Company controls.

SECTION 2.10 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

SECTION 2.11 "Executive Officer Participants" means Participants who are subject to the provisions of Section 16 of the Exchange Act with respect to the Common Stock.

SECTION 2.12 "Fair Market Value" means, as of any date, (i) if the principal market for the Common Stock is a national securities exchange or the Nasdaq stock market, the closing price of the Common Stock on that date on the principal exchange on which the Common Stock is then listed or admitted to trading; or (ii) if sale prices are not available or if the principal market for the Common Stock is not a national securities exchange and the Common Stock is not quoted on the Nasdaq stock market, the average of the highest bid and lowest asked prices for the Common Stock on such day as reported on the Nasdaq OTC Bulletin Board Service or by the National Quotation Bureau, Incorporated or a comparable service. If the day is not a business day, and as a result, clauses (i) and (ii) are inapplicable, the Fair Market Value of the Common Stock shall be determined as of the last preceding business day. If clauses (i) and (ii) are otherwise inapplicable, the Fair Market Value of the Common Stock shall be determined in good faith by the Committee.

SECTION 2.13 "Non-Executive Officer Participants" means Participants who are not subject to the provisions of Section 16 of the Exchange Act.

SECTION 2.14 "Nonqualified Stock Option" means an option to purchase shares of Common Stock which is not an incentive stock option within the meaning of Section 422(b) of the Code.

SECTION 2.15 "Option" means a Nonqualified Stock Option granted under Article VI of the Plan.

SECTION 2.16 "Option Agreement" means any written instrument that establishes the terms, conditions, restrictions, and/or limitations applicable to an Option in addition to those established by this Plan and by the Committee's exercise of its administrative powers.

SECTION 2.17 "Participant" means an Eligible Person to whom an Option has been granted by the Committee under the Plan.

SECTION 2.18 "Plan" means the Chesapeake Energy Corporation 2002 Nonqualified Stock Option Plan.

SECTION 2.19 "Regular Stock Option Committee" means a committee designated by the Board which shall consist of not less than two members of the Board.

SECTION 2.20 "Special Stock Option Committee" means a committee designated by the Board which shall consist of not less than two members of the Board who meet the definition of "non-employee directors" pursuant to Rule 16b-3, or any successor rule, promulgated under Section 16 of the Exchange Act.

SECTION 2.21 "Subsidiary" shall have the same meaning set forth in Section 424 of the Code.

ARTICLE III

ADMINISTRATION

SECTION 3.1 Administration of the Plan; the Committee. The Regular Stock Option Committee shall administer the Plan with respect to Non-Executive Officer Participants, including the grant of Options, and the Special Stock Option Committee shall administer the Plan with respect to Executive Officer Participants, including the grant of Options. Accordingly, as used in the Plan, the term "Committee" shall mean the Regular Stock Option Committee if it refers to Plan administration affecting Non-Executive Officer Participants or the Special Stock Option Committee if it refers to Plan administration affecting Executive Officer Participants. If in either case the Committee does not exist, or for any other reason determined by the Board, the Board may take any action under the Plan that would otherwise be the responsibility of the Committee.

Unless otherwise provided in the by-laws of the Company or resolutions adopted from time to time by the Board establishing the Committee, the Board may from time to time remove members from, or add members to, the Committee. Vacancies on the Committee, however caused, shall be filled by the Board. The Committee shall hold meetings at such times and places as it may determine. A majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present shall be the valid acts of the Committee. Any action which may be taken at a meeting of the Committee may be taken without a meeting if all the members of the Committee consent to the action in writing.

Subject to the provisions of the Plan, the Committee shall have exclusive power to:

(a) Select the Eligible Persons to participate in the Plan.

(b) Determine the time or times when Options will be granted.

(c) Determine the number of shares of Common Stock subject to any Option, all the terms, conditions (including performance requirements), restrictions and/or limitations, if any, of an Option, including the time and conditions of exercise or vesting, and the terms of any Option Agreement, which may include the waiver or amendment of prior terms and conditions or acceleration of the vesting or exercise of an Option under certain circumstances determined by the Committee.

(d) Determine whether Options will be granted singly or in combination.

(e) Take any and all other action it deems necessary or advisable for the proper operation or administration of the Plan.

SECTION 3.2 Committee to Make Rules and Interpret Plan. The Committee in its sole discretion shall have the authority, subject to the provisions of the Plan, to establish, adopt, or revise such rules and regulations and to make all such determinations relating to the Plan as it may deem necessary or advisable for the administration of the Plan. The Committee's interpretation of the Plan or any Options granted pursuant hereto and all decisions and determinations by the Committee with respect to the Plan shall be final, binding, and conclusive on all parties.

ARTICLE IV

GRANT OF OPTIONS

The Committee may, from time to time, grant Options to one or more Participants, provided, however, that:

(a) At least a majority of the shares of Common Stock underlying Options granted under the Plan during any three-year period must be granted to employees who are not Executive Officer Participants or directors of the Company.

(b) Any shares of Common Stock related to Options which terminate by expiration, forfeiture, cancellation or otherwise without the issuance of shares of Common Stock shall be available again for grant under the Plan.

(c) Common Stock delivered by the Company upon exercise of an Option under the Plan will be authorized and unissued shares or issued shares which have been reacquired by the Company (i.e., treasury shares).

(d) The Committee shall, in its sole discretion, determine the manner in which fractional shares arising under this Plan shall be treated.

(e) Upon the exercise of any Option, the Company shall issue and deliver to the Participant who exercised the Option a certificate representing the number of shares of Common Stock purchased thereby.

ARTICLE V

ELIGIBILITY

Subject to the provisions of the Plan, the Committee shall, from time to time, select from the Eligible Persons those to whom Options shall be granted and shall establish in the related Option Agreements the terms, conditions, restrictions and/or limitations, if any, applicable to the Options in addition to those set forth in the Plan and the administrative rules and regulations issued by the Committee.

ARTICLE VI

STOCK OPTIONS

SECTION 6.1 Grant of Options. The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant Nonqualified Stock Options to Eligible Persons. Each grant of an Option shall be evidenced by an Option Agreement executed by the Company and the Participant, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve, subject to the requirements of Section 6.2.

SECTION 6.2 Conditions of Options. Each Option so granted shall be subject to the following conditions:

(a) Exercise Price. The Option Agreement for each Option shall state the exercise price which shall be set by the Committee on the Date of Grant. No Option shall be granted at an exercise price which is less than the Fair Market Value of the Common Stock on the Date of Grant, except that Options for the purchase of up to ten percent (10%) of the shares subject to the Plan may be granted at an exercise price which is not less than eighty-five percent (85%) of the Fair Market Value of the Common Stock on the Date of Grant.

(b) Form of Payment. The payment of the exercise price of an Option shall be subject to the following:

(i) The full exercise price for shares of Common Stock purchased upon the exercise of any Option shall be paid at the time of such exercise (except that, in the case of an exercise arrangement approved by the Committee and described in clause (iii) below, payment may be made as soon as practicable after the exercise).

(ii) The exercise price shall be payable in cash (including a check acceptable to the Committee, bank draft or money order) or by tendering, by either actual delivery of shares or by attestation, shares of Common Stock acceptable to the Committee and valued at Fair Market Value as of the day of exercise, or any combination thereof, as determined by the Committee.

(iii) The Committee may permit a Participant to elect to pay the exercise price upon the exercise of an Option by irrevocably authorizing a third party to sell shares of Common Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire exercise price and any tax withholding resulting from such exercise.

(c) Exercise of Options. Options granted under the Plan shall be exercisable, in whole or in such installments and at such times, and shall expire at such time, as shall be provided by the Committee in the Option Agreement. Exercise of an Option shall be by written notice stating the election to exercise in the form and manner determined by the Committee. Every share of Common Stock acquired through the exercise of an Option shall be deemed to be fully paid at the time of exercise and payment of the exercise price.

(d) Other Terms and Conditions. Among other conditions that may be imposed by the Committee, if deemed appropriate, are those relating to (i) the period or periods and the conditions of exercisability of any Option; (ii) the minimum periods during which Participants must be employed by the Company or its Subsidiaries, or must hold Options before they may be exercised; (iii) the minimum periods during which shares acquired upon exercise must be held before sale or transfer shall be permitted; (iv) the maximum period that Participants will be allowed to be inactively employed or on a leave of absence before their vesting is suspended until they return to active employment; (v) conditions under which such Options or shares may be subject to forfeiture; (vi) the frequency of exercise or the minimum or maximum number of shares that may be acquired at any one time and (vii) the achievement by the Company of specified performance criteria.

(e) Application of Funds. The proceeds received by the Company from the sale of Common Stock issued upon the exercise of Options will be used for general corporate purposes.

(f) Shareholder Rights. No Participant shall have any rights as a shareholder with respect to any share of Common Stock subject to an Option prior to the purchase of such share of Common Stock by exercise of the Option.

ARTICLE VII

STOCK ADJUSTMENTS

Subject to the provisions of Article IX of this Plan, in the event that the shares of Common Stock, as presently constituted, shall be changed into or exchanged for a different number or kind or shares of stock or other securities of the Company or of another corporation (whether by reason of merger, consolidation, recapitalization, reclassification, stock split, combination of shares or otherwise), or if the number of such shares of Common Stock shall be increased through the payment of a stock dividend, or a dividend on the shares of Common Stock or rights or warrants to purchase securities of the Company shall be made, then there shall be substituted for or added to each share available under and subject to the Plan as provided in Section 1.3 hereof, and each share then subject or thereafter subject or which may become subject to Options under the Plan, the number and kind of shares of stock or other securities into which each outstanding share of Common Stock shall be so changed or for which each such share shall be exchanged or to which each such share shall be entitled, as the case may be, on a fair and equivalent basis in accordance with the applicable provisions of Section 424 of the Code; provided, however, in no such event will such adjustment result in a modification of any Option as defined in Section 424(h) of the Code. In the event there shall be any other change in the number or kind of the outstanding shares of Common Stock, or any stock or other securities into which the Common Stock shall have been changed or for which it shall have been exchanged, then if the Committee shall, in its sole discretion, determine that such change equitably requires an adjustment in the shares available under and subject to the Plan, or in any Option theretofore granted or which may be granted under the Plan, such adjustments shall be made in accordance with such determination, except that no adjustment of the number of shares of Common Stock available under the Plan or to which any Option relates that would otherwise be required shall be made unless and until such adjustment either by itself or with other adjustments not previously made would require an increase or decrease of at least 1% of the number of shares of Common Stock available under the Plan or to which any Option relates immediately prior to the making of such adjustment (the "Minimum Adjustment"). Any adjustment representing a change of less than such minimum amount shall be carried forward and made as soon as such adjustment together with other adjustments required by this Article VII and not previously made would result in a Minimum Adjustment. Notwithstanding the foregoing, any adjustment required by this Article VII which otherwise would not result in a Minimum Adjustment shall be made with respect to shares of Common Stock relating to any Option immediately prior to exercise of such Option.

No fractional shares of Common Stock or units of other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share.

ARTICLE VIII

GENERAL

SECTION 8.1 Amendment or Termination of Plan. The Board may suspend or terminate the Plan at any time. In addition, the Board may, from time to time, amend the Plan in any manner in accordance with applicable federal or state laws or regulations.

SECTION 8.2 Acceleration of Otherwise Unexercisable Stock Options on Death, Disability or Other Special Circumstances. The Committee, in its sole discretion, may permit (i) a Participant who terminates employment due to a Disability, (ii) the personal representative of a deceased Participant, or (iii) any other Participant who terminates employment upon the occurrence of special circumstances (as determined by the Committee) to purchase all or any part of the shares subject to any unvested Option on the date of the Participant's termination of employment due to a Disability, death or special circumstances, or as the Committee otherwise so determines. With respect to Options which have already vested at the date of such termination or the vesting of which is accelerated by the Committee in accordance with the foregoing provision, the Participant or the personal representative of a deceased Participant shall have the right to exercise such vested Options within such period(s) as the Committee shall determine.

SECTION 8.3 Nonassignability. Options are not transferable otherwise than by will or the laws of descent and distribution. Any attempted transfer, assignment, pledge, hypothecation or other disposition of, or the levy of execution, attachment or similar process upon, any Option contrary to the provisions hereof shall be void and ineffective, shall give no right to any purported transferee, and may, at the sole discretion of the Committee, result in forfeiture of the Option involved in such attempt.

SECTION 8.4 Withholding Taxes. A Participant must pay to the Company the amount of taxes required by law upon the exercise of an Option in cash.

SECTION 8.5 Regulatory Approval and Listings. The Company shall use its best efforts to file with the Securities and Exchange Commission as soon as practicable following the date this Plan is effective, and keep continuously effective and usable, a Registration Statement on Form S-8 with respect to shares of Common Stock subject to Options hereunder. Notwithstanding anything contained in this Plan to the contrary, the Company shall have no obligation to issue or deliver certificates representing shares of Common Stock evidencing Options prior to:

(a) the obtaining of any approval from, or satisfaction of any waiting period or other condition imposed by, any governmental agency which the Committee shall, in its sole discretion, determine to be necessary or advisable;

(b) the listing of such shares on any exchange on which the Common Stock may be listed; and

(c) the completion of any registration or other qualification of such shares under any state or federal law or regulation of any governmental body which the Committee shall, in its sole discretion, determine to be necessary or advisable.

SECTION 8.6 Right to Continued Employment. Participation in the Plan shall not give any Participant any right to remain in the employ of the Company or any Subsidiary or any partnership or limited liability company controlled by the Company. Further, the adoption of this Plan shall not be deemed to give any Employee or Consultant or any other individual any right to be selected as a Participant or to be granted an Option.

SECTION 8.7 Reliance on Reports. Each member of the Committee and each member of the Board shall be fully justified in relying or acting in good faith upon any report made by the independent public accountants of the Company and its Subsidiaries and upon any other information furnished in connection with the Plan by any person or persons other than the Committee or Board member. In no event shall any person who is or shall have been a member of the Committee or of the Board be liable for any determination made or other action taken or any omission to act in reliance upon any such report or information or for any action taken, including the furnishing of information, or failure to act, if in good faith.

SECTION 8.8 Construction. The titles and headings of the sections in the Plan are for the convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

SECTION 8.9 Governing Law. The Plan shall be governed by and construed in accordance with the laws of the State of Oklahoma except as superseded by applicable federal law.

ARTICLE IX

ACCELERATION OF OPTIONS UPON CORPORATE EVENT

SECTION 9.1 Procedures for Acceleration and Exercise. If the Company shall, pursuant to action by the Board, at any time propose to dissolve or liquidate or merge into, consolidate with, or sell or otherwise transfer all or substantially all of its assets to another corporation and provision is not made pursuant to the terms of such transaction for the assumption by the surviving, resulting or acquiring corporation of outstanding Options under the Plan, or for the substitution of new options therefor, the Committee shall cause written notice of the proposed transaction to be given to each Participant no less than forty days prior to the anticipated effective date of the proposed transaction, and the Participant's Option shall become 100% vested. Prior to a date specified in such notice, which shall be not more than ten days prior to the anticipated effective date of the proposed transaction, each Participant shall have the right to exercise his or her Option to purchase any or all of the Common Stock then subject to such Option. Each Participant, by so notifying the Company in writing, may, in exercising his or her Option, condition such exercise upon, and provide that such exercise shall become effective immediately prior to the consummation of the transaction, in which event such Participant need not make payment for the Common Stock to be purchased upon exercise of such Option until five days after receipt of written notice by the Company to such Participant that the transaction has been consummated. If the transaction is consummated, each Option, to the extent not previously exercised prior to the date specified in the foregoing notice, shall terminate on the effective date such transaction is consummated. If the transaction is abandoned, (i) any Common Stock not purchased upon exercise of such Option shall continue to be available for purchase in accordance with the other provisions of the Plan and (ii) to the extent that any Option not exercised prior to such abandonment shall have vested solely by operation of this Section 9.1, such vesting shall be deemed voided as of the time such acceleration otherwise occurred pursuant to Section 9.1, and the vesting schedule set forth in the Participant's Option Agreement shall be reinstituted as of the date of such abandonment.

SECTION 9.2 Certain Additional Payments by the Company. The Committee may, in its sole discretion, provide in any Option Agreement for certain payments by the Company in the event that acceleration of vesting of any Option under the Plan is subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties with respect to such excise tax (such excise tax, interest and penalties, collectively, the "Excise Tax"). An Option Agreement may provide that the Participant shall be entitled to receive a payment (a "Gross-Up Payment") in an amount such that after payment by the Participant of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, the Participant retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon such acceleration of vesting of any Option.