LETTER TO SHAREHOLDERS

In our initial letter to Chesapeake's shareholders last year, we described how the combination of our large undeveloped leasehold inventory, our drilling expertise, and our strengthened balance sheet would generate substantial growth in the company's assets, production, cash flow and earnings. We are pleased to report that substantial growth did occur, and we believe Chesapeake is well-positioned to continue its growth in fiscal 1995 and beyond.

1994's ACHIEVEMENTS

We established ambitious goals for the company in fiscal 1994 and believe we achieved all of them. During the year, Chesapeake:

- Increased annual oil and gas production 134% to 10.2 billion cubic feet of gas equivalent (BCFE)
- Increased net income to $3.9 million from a $365,000 loss
- Increased operating cash flow 255% to $15.1 million
- Increased operating cash flow margin 51% to $1.50 per thousand feet of gas equivalent (MCFE)
- Increased capital through a $47.5 million senior note offering
- Reduced general and administrative costs by 66% per MCFE
- Reduced depreciation, depletion and amortization costs by 17% per MCFE.
- Reduced production costs by 40% per MCFE

CHESAPEAKE'S GOAL: INDUSTRY LEADERSHIP

Our goal in fiscal 1995 is to lead the independent energy sector in:

- Technological advancement in deep horizontal drilling
- Growth in proved reserves per share
- Profit per unit-of-production
- Return on shareholders' equity

With Chesapeake's oil and gas production expected to double in fiscal 1995 and a relatively fixed cost structure, we believe this goal is achievable.

CHESAPEAKE'S STRATEGY: GROWTH THROUGH THE DRILLBIT

We believe the strategy most likely to meet our goal is to drill new wells rather than to purchase other companies' old wells. We call this strategy "growth through the drillbit" and it is the foundation of all that we do. This strategy of growth through the drillbit and management's

ownership of approximately 50% of the company are the two most important characteristics distinguishing Chesapeake from its competitors.

Our geoscientists and landmen have demonstrated the necessary skill to acquire drilling rights in areas where the economic returns from drilling new wells have proven to be greater than the returns from competing in the crowded acquisitions market. Furthermore, we believe Chesapeake's growth strategy of creating value through the drillbit is more sustainable than the alternative strategy, where success is defined by paying the highest price for a producing property.

A review of Chesapeake's fiscal 1994 results evidences the success of our strategy. During the year, Chesapeake drilled 92 wells with a 95% success rate. These new wells generated net production to the company of 5.2 BCFE, or 51% of Chesapeake's fiscal 1994 production. In addition, our drilling in 1994 developed net reserves of 41.7 BCFE at a total cost of $20.8 million. This translates into a finding cost of $0.50 per MCFE, which we believe is among the lowest in the industry.

RETAINING MORE OF THE VALUE WE CREATE

One of the reasons for our increasing rate of growth is the higher percentage of ownership Chesapeake now retains in its new wells. Because of capital constraints for most of fiscal 1993, the company drilled only five net wells in Chesapeake's primary operating areas. However, proceeds from the $25.2 million IPO in February 1993, the $47.5 million senior note offering in March 1994, and Chesapeake's rapidly increasing cash flow enabled the company to drill 21 net wells in fiscal 1994. We anticipate drilling 34 net wells in fiscal 1995, allowing the company to retain a much larger share of the value our operations team creates.

The combination of our larger working interests and the success of our drilling in the Navasota River area of the Giddings Field in southern Texas has had a substantial impact on our production. Chesapeake increased its average net production in the fourth quarter of fiscal 1994 to 2,160 barrels of oil per day (BOD) and 32 million cubic feet of natural gas per day (MMCFD), 159% and 397% increases over the fourth quarter of fiscal 1993. In addition, our oil and gas production per share increased 63% and our proved reserves increased to 23 MCFE per share, among the highest in our peer group.

TEAMWORK + TECHNOLOGY = SUPERIOR PERFORMANCE

As reflected by the increases in production and reserves and the decreases in unit operating costs, Chesapeake's operations team performed exceptionally well in fiscal 1994. We expect this performance to continue as we enhance Chesapeake's position as an industry leader by implementing state-of-the-art horizontal drilling techniques in the Giddings Field.

We have now drilled 63 horizontal wells in Giddings and have developed a specific expertise in the high pressure and high temperature environment of the downdip, or deeper, portion of the Giddings Field. Chesapeake is drilling or has drilled eight of the 12 deepest horizontal wells in

the Giddings Field. The company is presently capable of drilling its Giddings wells to a combined vertical and horizontal depth in excess of 20,000 feet.

Since our IPO in February 1993, Chesapeake has drilled 52 horizontal wells in the Giddings Field. These wells have produced an average of 369 BOD and 5.1 MMCFD, have returned an average of 127% of their cost, and paid out in an average of six months. The strength of these wells has enabled Chesapeake to lead its peer group in per-well productivity, an important contributor to meeting our profitability goals.

Even more impressive are the 13 Giddings wells we have drilled in the Navasota River area, which was introduced in last year's annual report as one of Chesapeake's "New Areas." Our first well in Navasota River began producing in February 1994, and since that time these 13 Navasota River wells have averaged 600 BOD and 10.7 MMCFD and paid out in less than three months. We believe these Navasota River wells are among the best wells drilled in the onshore U.S. by any company in 1994.

PRIMARY OPERATING AREAS

For the third consecutive year and for the foreseeable future, Chesapeake will focus its drilling activities on the Giddings Field of southern Texas and the Golden Trend Field of southern Oklahoma. In these fields, the company has developed a competitive advantage through its proprietary land and geophysical assets and its expertise in advanced drilling techniques. By utilizing sophisticated drilling and completion technologies in the appropriate geological environment, Chesapeake has lowered its finding and production costs, reduced its financial risks, and increased its per-well reserve recoveries. We further believe Chesapeake's process of value creation will be sustainable in its primary operating areas for years to come.

THE GIDDINGS FIELD

Chesapeake's most important assets are located in the Giddings Field, one of the most active and prolific fields in the nation. Since 1991, Chesapeake, Union Pacific Resources Company and others have drilled more than 1,000 horizontal wells in Giddings with a total capital investment in excess of $1 billion. Giddings is also one of the largest oil and gas fields in the nation, with a fairway of production 75 miles long and 25 miles wide. Giddings produces primarily from the Austin Chalk, Buda, and Georgetown formations, Cretaceous-age fractured carbonate reservoirs found at depths from 7,000 to 16,000 feet. Activity in the field can be divided into two areas-the updip portion, with producing depths above 11,000 feet where production is primarily oil, and the downdip portion, with producing depths ranging from 11,000 feet to the present limit of 15,000 feet where production is primarily natural gas.

UPDIP VS. DOWNDIP

The financial results and technological expertise associated with these two areas of the Austin Chalk are vastly different. The updip, or shallower, play has been the focus of operators who are using horizontal drilling as a method of secondary recovery. These operators are extracting the remaining oil reserves not recovered from the 7,500 vertical wells drilled in the updip area

during the 1970's and early 1980's. Reserves and financial results per well are significantly lower in the updip area because of depletion caused by the earlier vertical drilling and by competition for reserves created by the smaller horizontal drilling units utilized in the updip area.

Chesapeake's drilling expertise and 175,000 gross acre leasehold position have enabled the company to lead the development of the downdip part of the field during the past year. The downdip play is characterized by higher reservoir pressures, a production stream weighted toward natural gas, more intense natural fracturing, and an absence of depletion. In addition, these downdip areas are being developed using more advanced drilling technologies and larger spacing units. The combination of higher reservoir quality and more sophisticated drilling practices has generated outstanding results. For the 13 Navasota River wells drilled in the downdip area, our finding costs have been $0.27 per MCFE, far lower than the industry average of $1.09. Equally important, the downdip wells have exhibited significantly flatter decline curves than the updip wells.

REQUIREMENTS FOR SUCCESS IN THE DOWNDIP AUSTIN CHALK

We believe Chesapeake has "broken the code" in the downdip Austin Chalk by developing a drilling strategy built around three distinguishing characteristics. First, Chesapeake has acquired large contiguous leasehold blocks. This allows Chesapeake to establish 700 to 1,000 acre drilling units resulting in wells that are spaced approximately one mile apart. These large spacing units help to protect against drainage from offsetting wells. By comparison, the typical spacing pattern for an updip well is 200 to 400 acres with wells commonly spaced one-half mile apart, thus increasing the likelihood of competition for reserves.

Secondly, Chesapeake has developed the drilling experience and geological expertise within the field to identify the most prolific 15 to 20 foot sections of the 100 foot thick lower Austin Chalk formation. Chesapeake identifies these sections through the integration of seismic interpretation with logging-while-drilling gamma ray tools to ensure that the drillbit stays within these narrowly defined pay zones. The company's expertise in identifying and drilling within the most productive intervals of the Austin Chalk has helped Chesapeake enjoy higher per-well recoveries than any of its competitors in Giddings during the last eighteen months.

Finally, Chesapeake has participated in and contributed to the rapid rate of technological progress in horizontal drilling tools. Innovations in downhole motors, measurement-while-drilling tools, drillbit designs, and multiple lateral wellbore drilling have enabled Chesapeake to reduce its drilling costs per horizontal foot by almost 60% since 1992. The company's expertise and creativity with this rapidly expanding technology have helped Chesapeake expand the boundaries of the downdip play in Giddings to 15,000 feet, creating significant additional drilling opportunities. In 1995, Chesapeake intends to further expand this downdip limit.

THE INITIAL DOWNDIP PLAY: FAYETTE COUNTY

Chesapeake has divided the downdip play in the Giddings Field into three areas: Fayette, Navasota River and Independence. In August 1991, Chesapeake acquired development rights

to the 15,000-acre GeoSouthern block, our first acreage holding in the downdip Fayette area. After successfully drilling 12 wells on this block, we contributed the remaining undeveloped portion of the GeoSouthern acreage into a 20,000 acre joint venture with Union Pacific in October 1993. In this joint venture, Union Pacific and Chesapeake have cooperated in pioneering and further developing the advanced technology of drilling dual opposing laterals (two horizontal laterals drilled in opposite directions from the same vertical wellbore) and dual stacked laterals (two horizontal laterals drilled in the same direction but at different depths from the same vertical wellbore). To date, 11 wells have been drilled in this joint venture, generating cumulative gross production of 15 BCFE and estimated remaining reserves of 37 BCFE. For fiscal 1995, Chesapeake has budgeted $5 million to drill three net (14 gross) wells in the Chesapeake/Union Pacific joint venture, with additional development contemplated in fiscal 1996 and beyond.

To the south (and further downdip) from the Chesapeake/Union Pacific joint venture, Chesapeake is participating in a 50/50 joint venture with Swift Energy Company to develop 8,000 gross acres known as the LCRA block. Adjacent to and on structural strike with the LCRA block, Chesapeake has also acquired 5,000 gross acres in the Fayetteville prospect. Drilling on these blocks is scheduled to begin in the second quarter of fiscal 1995 after our 3-D seismic data has been processed. For fiscal 1995, Chesapeake has budgeted $4 million to drill three net (11 gross) wells in these two areas, leaving six potential wells to be drilled in fiscal 1996 and beyond. Chesapeake is acquiring other acreage in the Fayette area and we believe this portion of the downdip Giddings Field will continue to play an important role in the company's future drilling plans.

THE SECOND DOWNDIP PLAY: NAVASOTA RIVER

Chesapeake believes its 13 wells in Navasota River demonstrate that this 45,000 acre block in the downdip portion of the Giddings Field may represent the best drilling opportunity in the United States. The Navasota River leasehold block, located in Brazos and Grimes Counties, Texas, was introduced in the "New Areas" section of last year's annual report. We were hopeful that the drilling results in Navasota River would be as attractive as those we had experienced in the downdip Fayette area. However, the results from the 13 wells in Navasota River have significantly exceeded our expectations. Gross reserves per well have been estimated by our independent reservoir engineers to exceed an average of eight BCFE. For fiscal 1995, Chesapeake has budgeted $18 million to drill nine net (24 gross) wells in Navasota River, leaving approximately 20 potential wells to be drilled in fiscal 1996 and beyond.

THE THIRD DOWNDIP PLAY: INDEPENDENCE

The Independence area could become Chesapeake's third downdip success based on the company's geological model that has performed successfully in the downdip areas of Fayette and Navasota River. Located to the south and southwest of the Navasota River area in Grimes and Washington Counties, the Independence acreage block contains approximately 100,000 gross acres on which potentially 100 horizontal wells could be drilled. For fiscal 1995, we have budgeted approximately $8 million to drill five net (I9 gross) wells that will test the block's

potential. If these initial wells are successful, we believe Independence could add significantly to the company's oil and gas reserves. However, as with Navasota River last year, we have not included any reserve value from the Independence area in this year's reserve report.

ADDITIONAL OBJECTIVES

Although the Austin Chalk is the primary target of almost all horizontal wells in the Giddings Field, the Buda and Georgetown formations, other fractured carbonates of the Cretaceous age, are located within 1,000 feet of the base of the Austin Chalk. We believe the geological conditions that created the fracturing in the Austin Chalk also created similar fracturing in the Buda and Georgetown.

In May 1992, Chesapeake drilled the first producing horizontal Georgetown well in Grimes County, near the town of Iola, Texas. This well, located 15 miles north of Chesapeake's main Navasota River block, has produced approximately 2.8 BCFE in two years. As importantly, the well continues to produce in excess of its initial daily production rate of 3.4 MMCFD. In March 1994, Chesapeake drilled a vertical well 20 miles to the south of Iola on the southern edge of the main Navasota River block to further test the potential of the Georgetown. This vertical well tested 1.2 MMCFD from the Georgetown before being plugged back to establish initial production of 7.4 MMCFD from the Austin Chalk.

We believe these two wells provide evidence that the Buda and Georgetown may prove productive under a large portion of Chesapeake's 175,000 gross acres in the downdip Giddings play. To further evaluate our theory, Chesapeake has budgeted $2 million in fiscal 1995 to drill two horizontal Buda and Georgetown wells in a 50/50 joint venture with Snyder Oil Corporation.

THE GOLDEN TREND

Chesapeake's second primary operating area is the Golden Trend Field of southern Oklahoma, one of the most active fields in the Mid-Continent region of the nation. During the last ten years, Chesapeake, Amerada Hess, Anadarko, Mobil, Phillips, OXY and others have drilled more than 450 wells in the Golden Trend with a total capital investment of approximately $400 million.

Wells in the Golden Trend Field have many attractive characteristics, including reserves that are long-lived and weighted 85% towards liquids-rich natural gas. In addition, drilling costs are predictable and controllable, and multiple zone completions reduce geological and financial risk. Chesapeake has developed a significant geological and engineering niche in the Golden Trend, enabling the company to generate attractive finding costs and low lifting costs. Chesapeake excels in the drilling of these technically-demanding deep wells. In fact, in fiscal 1994, our 30 Golden Trend wells averaged 13,500 feet in depth, making Chesapeake the leader in average well depth drilled in Oklahoma.

Moreover, the company's land position in the Golden Trend continues to grow. After beginning the year with 150 undrilled locations in our Golden Trend inventory and after drilling 30 wells (23 operated by Chesapeake and seven by Anadarko), Chesapeake still controls more than 150

undrilled Golden Trend locations. For fiscal 1995, Chesapeake has budgeted $11 million to drill 12 net (50 gross) wells in the Golden Trend.

In August 1994, Chesapeake renewed for a second three-year period its 50/50 joint venture with Amerada Hess in the Golden Trend. In this joint venture, Chesapeake drills and operates the wells and Amerada Hess assists with geophysical and engineering support. In addition to Amerada Hess, Chesapeake has smaller joint ventures in this field with Mobil, Texaco, Amoco, Phillips, Marathon, Chevron, and Noble Affiliates.

As in Giddings, Chesapeake continues to deepen the downdip limits of the Golden Trend Field. In fiscal 1994, Chesapeake drilled the first two wells that established production below 15,000 feet from the Sycamore, Woodford, Hunton, and Viola formations in the Knox area of the Golden Trend.

KNOX

Knox is the second "New Area" we would like to introduce in this report. Knox is a southwest extension to the Golden Trend and represents a significant opportunity for Chesapeake to further increase the company's reserves. In fiscal 1995, through our Knox area development, Chesapeake will become the first company to establish production from below 16,000 feet in the Sycamore, Woodford, Hunton and Viola formations in the Golden Trend. Our success in Knox demonstrates Chesapeake's ability to leverage its geological, engineering, and land expertise into new areas that have the potential to increase proved reserves.

SHOLEM ALECHEM

In last year's annual report, we introduced our joint venture with Texaco in the Sholem Alechem area in Oklahoma as the second "New Area" after Navasota River. The Sholem Alechem area is located within southern Oklahoma's giant Sho-Vel-Tum Field. This field has produced more than one billion barrels of oil and one trillion cubic feet of gas since its discovery more than 80 years ago. We have drilled two successful wells in the Sholem Alechem joint venture and have budgeted $2 million to drill two net (six gross) wells in fiscal 1995. If this year's drilling activities are successful, we believe the Sholem Alechem area is large enough to support the drilling of more than 50 horizontal wells. We believe our horizontal drilling joint venture with Texaco also demonstrates Chesapeake's ability to utilize its expertise in advanced technologies to develop strong relationships with major oil companies.

CONSISTENT STRATEGY

Our decision to reproduce last year's cover and continue the conservative theme for Chesapeake's annual report is evidence of the consistency of our corporate strategy. Since Chesapeake's inception in 1989, all of the company's reserves and assets have been built through drilling activities. We plan to continue this proven strategy of growth through the drillbit.

Our plan centers on an aggressive undeveloped leasehold acquisition program. It currently provides a three-year inventory of undrilled locations on which we intend to utilize advanced

horizontal and vertical drilling technologies to generate continuing production and reserve growth. We believe this strategy will create substantial value for our shareholders.

LOOKING TO THE FUTURE

As impressive as our growth has been in fiscal 1994, we believe we have the appropriate strategy and infrastructure to improve further in fiscal 1995. Our large undeveloped acreage inventory, improving drilling technologies, and creative, dedicated employee/shareholders should enable Chesapeake to reach our goals for fiscal 1995. Furthermore, because management owns approximately 50% of Chesapeake's stock, shareholders can be assured that we will remain focused on growth in reserves, cash flow, and earnings per share.

We again express our gratitude to our Board of Directors who have provided excellent counsel through their collective experience and business acumen. They have provided Chesapeake with invaluable insight and perspective during this period of exceptional growth. We also appreciate the talent and work ethic of our employees, all of whom are recognized on pages 14 and 15 of this report.

We also express our gratitude to our fellow shareholders. Our job is to make money for you and we will remain dedicated to this challenge. We promise to continue to work hard and make Chesapeake the standard by which other independent energy companies are measured.

Aubrey K. McClendon
Chairman of the Board and Chief Executive Officer

Tom L. Ward
President and Chief Operating Officer

October 10, 1994