Chesapeake

Letter to Shareholders - First Quarter 2006

Dear Fellow Investors:

We are pleased to report another quarter of record performance from your company. In the 2006 first quarter, Chesapeake recorded its 19th consecutive quarter of sequential production growth and generated a strong quarter of operational and financial performance.

The following summary highlights the company's achievements in the 2006 first quarter compared to the 2005 first quarter:

* Average daily oil and natural gas production increased 31% from 1.162 bcfe to 1.519 bcfe;
* Proved oil and natural gas reserves increased 44% from 5.4 tcfe to 7.8 tcfe;
* Revenues rose 148% from $0.8 billion to $1.9 billion;
* Adjusted ebitda(1) increased 109% from $0.5 billion to $1.1 billion;
* Operating cash flow(2) grew 107% from $0.5 billion to $1.1 billion; and
* Adjusted earnings per diluted common share(3) increased 91% from $0.56 to $1.07.

Chesapeake's Business Strategy and Natural Gas Focus

In the seven years since the first quarter of 1999, Chesapeake's U.S. proved reserves and average daily U.S. production have increased by 754% and 343% while we have become the most active U.S. driller with 87 operated rigs currently drilling. During that time, we have also added more than 300,000 shareholders and have become one of the most actively traded stocks in the U.S. That growth stems from a business strategy that is focused on growing onshore in the U.S. through a balance of drilling and acquisitions, consolidating regionally to achieve economies of scale, concentrating almost exclusively on finding and producing natural gas and working proactively to mitigate risk through commodity price hedging and through investments in the service industry. By executing this strategy effectively, Chesapeake was America's top performing stock during the seven years ended December 31, 2005.(4)

In addition to the simplicity of our business strategy, our early recognition of developing trends in natural gas markets and our willingness to seize opportunities have set us apart from our peers. Back in early 1999, when natural gas was exceptionally cheap (frequently selling for less than $1.25 per mmbtu), most industry and government observers predicted that the U.S. natural gas market would increase from 22 tcf to 30 tcf per year by 2010 and that natural gas prices would remain low indefinitely. Chesapeake's management examined the fundamentals of the North American natural gas market and arrived at a very different conclusion. We began repositioning the company to pursue a contrarian strategy based on the following four objectives:

* acquire all of the existing natural gas production and reserves we could afford in areas with minimal access issues and with attractive growth potential;
* lease all the potentially natural gas productive acreage we could identify;
* hire all of the talented landmen, geoscientists and engineers we could find; and
* focus exclusively onshore in the U.S., safely away from hurricanes and geopolitical unrest.

Over the past seven years, we have accomplished these objectives. With the help of rising oil prices driven by surging global oil demand, natural gas prices have risen to levels 500-800% greater than they were in early 1999. More importantly, assuming normal weather patterns, U.S. natural gas demand is likely to remain strong and attractive natural gas prices are probable for years to come. As a result of our anticipation of these trends and getting ahead of our competition, Chesapeake is very well-positioned to respond to rising demand for clean-burning natural gas and to generate continued success for our investors in the years ahead.

Operational Results Remain Strong

Chesapeake's exploratory and development drilling programs and production enhancement operations continue to produce exceptional operational results. During the 2006 first quarter, Chesapeake produced 137 bcfe, resulting in average daily production of 1.519 bcfe, an increase of 31% over the 1.162 bcfe produced per day in the 2005 first quarter and an increase of 7% over the 1.418 bcfe produced per day in the 2005 fourth quarter.

During the 2006 first quarter, Chesapeake continued to ramp up its activity, drilling 262 gross (210 net) operated wells, participating in another 371 gross (45 net) wells operated by other companies and completing $1.0 billion in acquisitions. The company's drilling success rate was 97% for company-operated wells and 98% for non-operated wells. During the quarter, Chesapeake invested $505 million in operated wells (using an average of 77 operated rigs), $110 million in non-operated wells (using an average of 75 non-operated rigs) and $200 million in acquiring new 3-D seismic data and leases (exclusive of leases acquired through acquisitions).

In particular, the company continues to achieve outstanding drilling results in the Barnett Shale play in Johnson and Tarrant Counties in Texas. To date, Chesapeake has drilled and completed 83 Barnett Shale horizontal wells and has current daily net production of 110 mmcfe (145 mmcfe gross). According to our recent review of the State of Texas' production records, Chesapeake's Barnett Shale wells have been the most productive in the industry as calculated by peak month average daily production per horizontal well.

The company believes this achievement reflects its substantial experience in drilling and completing horizontal wells in the U.S. Since 1990, Chesapeake has drilled more than 800 horizontal wells and we believe we are the only company currently active in all of the following shale plays: the Barnett and Woodford Shales in West Texas; the Barnett Shale around Fort Worth, Texas; the Caney and Woodford Shales in southeastern Oklahoma; the Fayetteville Shale in Arkansas; and various Devonian Shale plays in Appalachia.

Because of this unique position in the industry, we believe Chesapeake has the distinct opportunity and competitive advantage to transfer knowledge and technology across all of the major shale plays in the U.S. east of the Rockies. Further, when combined with Chesapeake's expertise and activity level in various tight gas sand plays in the southwestern U.S. and Appalachia, Chesapeake believes it has established the leading natural gas resource base in the U.S.

Building for Tomorrow's Success Through Wise Investing Today

The key to value creation in the E&P business is investing wisely today to provide the foundation for tomorrow's growth. We believe investing in organic growth opportunities is the most predictable manner to deliver consistently attractive shareholder returns. As the first step in creating future value, Chesapeake has invested almost $4 billion in acquiring new leasehold and 3-D seismic information since early 1999 and now owns the largest inventories of onshore leasehold (8.9 million net acres) and 3-D seismic (12.3 million acres) in the U.S. On this leasehold, the company owns more than a 10-year drilling inventory comprised of an estimated 29,000 drilling locations on which it believes it can develop approximately 2.8 tcfe of proved undeveloped reserves and approximately 9.2 tcfe of unproved reserves.

In addition, Chesapeake has significantly strengthened its technical capabilities during the past seven years by increasing its land, geoscience and engineering staff by 425% to over 650 employees. Today, the company has more than 3,600 employees, of which approximately 70% work in the company's E&P operations and 30% work in the company's oilfield service operations

Chesapeake remains the most active driller in the U.S. and characterizes its drilling activity by one of four play types: conventional gas resource, unconventional gas resource, emerging gas resource and Appalachian Basin gas resource. In these plays, Chesapeake uses a probability-weighted statistical approach to estimate the potential number of drillsites and potential unproved reserves associated with such drillsites. The company's leasehold, proved undeveloped and estimated potential unproved reserve totals by play type are set forth below:

* 2.9 million net acres in its traditional conventional areas (i.e., much of the Mid-Continent, Permian, Gulf Coast, South Texas and other areas) on which it has approximately 2,700 drillsites, 1.0 tcfe of proved undeveloped reserves and approximately 1.0 tcfe of unproved reserves;
* 1.1 million net acres in its unconventional gas resource areas (i.e., Sahara, Granite / Cherokee / Atoka Washes, Hartshorne CBM, Barnett Shale and Ark-La-Tex tight sands) on which it has approximately 14,000 drillsites, 1.3 tcfe of proved undeveloped reserves and approximately 4.5 tcfe of unproved reserves;
* 1.5 million net acres in its emerging gas resource areas (i.e., the Fayetteville Shale in Arkansas, the Caney/Woodford Shales in Oklahoma, the Barnett and Woodford Shales of West Texas, and the Deep Haley and Deep Bossier overpressured sands in Texas) on which it has approximately 2,400 drillsites, 0.1 tcfe of proved undeveloped reserves and approximately 2.0 tcfe of unproved reserves; and
* 3.4 million net acres in the Appalachian Basin, where play types range from conventional to unconventional to emerging gas resource. On its significant Appalachian Basin acreage base acquired from CNR in November 2005, Chesapeake has approximately 10,000 drillsites, 0.4 tcfe of proved undeveloped reserves and more than 1.7 tcfe of unproved reserves.

Looking to secure further growth opportunities, Chesapeake continues to actively acquire valuable leasehold throughout its operating areas, including approximately 500,000 net acres in the 2006 first quarter through an aggressive land acquisition program that is currently utilizing almost 1,000 contract landmen in the field. In light of continued strong returns available through the drillbit on our extensive prospect inventory, we continue to increase our industry-leading U.S. drilling activity. We currently have 87 operated rigs working to generate new supplies of clean-burning, domestically-produced natural gas, up from an average of 77 operated rigs during the 2006 first quarter, and we anticipate increasing our drilling activity to over 100 operated rigs by year-end. This increase in drilling activity creates the potential for further increases in production levels for 2006 and 2007.

In February, we sold our 17% ownership interest in the common stock of Pioneer Drilling Corporation (AMEX:PDC) because public company valuations for onshore U.S. land drilling rigs had reached levels that substantially exceeded the private market valuation of comparable rigs. From this sale, we received proceeds of $159 million, resulting in a pre-tax gain to Chesapeake of $117 million, or a pre-tax profit margin of 275%, on an average investment holding period of 2.3 years. With proceeds from the Pioneer sale, the company acquired 13 U.S. onshore drilling rigs from privately-owned Martex Drilling Company L.L.P. for $150 million in February 2006. Chesapeake's rig investments have served as an effective hedge to rising service costs and have also provided competitive advantages in making acquisitions and in developing its own leasehold on a more timely and efficient basis.

Management's Outlook

During the 2006 first quarter, the company delivered top-tier production growth from the drillbit and from acquisitions and delivered record margins as higher oil and natural gas price realizations far outpaced modest oilfield cost inflation. We have opportunistically hedged serv ice costs and a substantial portion of our anticipated production over the next three years at exceptional prices in order to ensure strong profitability when others in the industry will likely face margin compression and reduced cash flows and profitability.

We are also pleased to have been recognized by Fortune Magazine earlier this year as one the country's 500 largest corporations. In that survey, we were ranked #451 by revenues, #226 by market value, #206 by assets, #178 by total profits, #28 by profits as a percentage of revenues, and, most importantly, #11 by total return to shareholders (an exceptional 94% in 2005). In addition, during the quarter we were also added to the S&P 500 Index. The inclusion of Chesapeake in the Fortune 500 and S&P 500 Index is a reminder of how well the company's business strategy has worked for investors, royalty owners, natural gas consumers and other company stakeholders over the years. Since our IPO on February 4, 1993, we have delivered an approximate 2,300% increase in our common stock price.

We have also been good stewards of our investors' capital and have been responsible corporate citizens as the company has continued to increase its scale. We also believe Chesapeake's management team can continue the successful execution of the company's distinctive business strategy and continue to deliver significant value to the company's investors for years to come.

Best regards,

Aubrey K. McClendon
Chairman and Chief Executive Officer

May 1, 2006

(1) Adjusted ebitda is net income (loss) before income tax expense (benefit), interest expense, and depreciation, depletion and amortization expense, adjusted to exclude unrealized (gains) losses on oil and natural gas derivatives, loss on repurchases/exchanges of debt, employee retirement expense and gain on sale of investment.
(2) Operating cash flow is net cash provided by operating activities before changes in assets and liabilities.
(3) Adjusted earnings is net income available to common shareholders before loss on conversion/exchange of preferred stock excluding, on an after-tax basis, unrealized (gains) losses on oil and natural gas derivatives, loss on repurchases/exchanges of debt, employee retirement expense and gain on sale of investment.
(4) Ranking is according to Zack's Investment Research (Zack's) based on stock price performance from 12/31/98 to 12/31/05 of nearly 3,000 companies tracked by Zack's with market over $50 million on 12/31/98.