

The Oil & Gas Lease, Part III

# Implied Covenants

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## What are implied covenants?

In context of oil and gas leases ...

- Obligations that bind leaseholder, which are not expressly stated in lease
- Implied covenants generally impose a duty upon lessee to be reasonably active and diligent

## Why do implied covenants exist?

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- Courts reason that typically the primary benefit that a lessor hopes to gain from a lease is the payment of royalties
- **And the amount of royalties, if any, depends on how much exploration the lessee does, how thoroughly it develops proven formations, and what it does to market product and protect against drainage**

### Why do implied covenants exist?

- **But with respect to the leaseholder, the typical lease does not impose any express duties to act**

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