

Title:

****Golden Valley Exploration, Inc. v. Pinkian Mining Company and Copper Valley, Inc.: A Case on Contractual Rescission in the Mining Sector****

Facts:

Pinkian Mining Company (PMC) owned 81 mining claims in Kayapa, Nueva Vizcaya, with 15 under Mining Lease Contract (MLC) No. MRD-56 and 66 pending lease applications. On October 30, 1987, an Operating Agreement (OA) was entered into with Golden Valley Exploration, Inc. (GVEI), granting it control over the claims for 25 years. GVEI contested PMC's extrajudicial rescission of the OA dated June 8, 1999, based on alleged violations by GVEI. Despite disagreements, PMC, without responding to GVEI's contestation, formed a Memorandum of Agreement with Copper Valley, Inc. (CVI) on May 2, 2000. GVEI then filed a complaint in the RTC seeking specific performance, annulment of the CVI contract, and damages. The RTC ruled in favor of GVEI, but upon appeal, the CA reversed the decision, affirming the rescission's validity and the subsequent agreement with CVI. GVEI's Motion for Reconsideration was denied, leading to an elevation to the Supreme Court.

Issues:

1. Whether the rescission of the Operating Agreement between GVEI and PMC was valid.
2. Whether PMC's unilateral rescission of the OA was substantiated based on the alleged violations by GVEI.
3. Whether the agreement between PMC and CVI was valid following the extrajudicial rescission of the OA with GVEI.

Court's Decision:

The Supreme Court affirmed the CA's decision, holding that the rescission of the OA was valid. The Court found GVEI's failure to act for over seven years towards commercial production of the mining claims covered under a perfected mining lease contract as a substantial breach. The Court highlighted the principle in reciprocal obligations, where either party may rescind based on substantial breach, rooted in Article 1191 of the Civil Code. The OA specifically empowered PMC to cancel the agreement upon GVEI's non-payment of royalties, deemed a substantial breach. Moreover, the addition of the MOA between PMC and CVI was found justified after the valid rescission of the OA.

Doctrine:

The case rests on Article 1191 of the Civil Code on rescission due to substantial breach in reciprocal obligations. It underlines the validity of extrajudicial rescission prompted by a

contractually stipulated violation and affirms the reciprocity principle in contract obligations.

Class Notes:

1. ****Substantial Breach in Reciprocal Obligations****: Fundamental violations justifying rescission are grounded on defeating the contract's essence, per Article 1191 of the Civil Code.
2. ****Reciprocity Principle****: A party's fulfillment of contractual promises is contingent on the other party's adherence to their obligations.
3. ****Extrajudicial Rescission****: Contracts may stipulate conditions under which parties can rescind them without judicial intervention, emphasizing the parties' autonomy in forming agreements.

Historical Background:

The dispute unravels significant aspects of contract law in the Philippine mining sector, especially concerning operating agreements, rescission rights, and the progression from extrajudicial rescission to court validation. It underscores the critical balance between contractual freedom and the necessity for judicial oversight in safeguarding contractual obligations and rights.