

GOLDEN VALLEY EXPLORATION, INC., PETITIONER, VS. PINKIAN MINING COMPANY AND COPPER VALLEY, INC., RESPONDENTS.*G.R. No. 190080. June 11, 2014*

Ponente: PERLAS-BERNABE, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-190080/>**PERLAS-BERNABE, J.:**

Assailed in this petition for review on certiorari[1] are the Decision[2] dated July 23, 2009 and the Resolution[3] dated October 23, 2009 of the Court of Appeals (CA) in CA-G.R. CV. No. 90682 which reversed the Decision[4] dated August 18, 2006 of the Regional Trial Court of Makati City, Branch 145 (RTC) in Civil Case No. 01-324 and, consequently, affirmed the validity of the rescission of the Operating Agreement between petitioner Golden Valley Exploration, Inc. (GVEI) and respondent Pinkian Mining Company (PMC) covering various mining claims in Kayapa, Nueva Vizcaya, as well as the Memorandum of Agreement between PMC and respondent Copper Valley, Inc. (CVI).

The Facts

PMC is the owner of 81 mining claims located in Kayapa, Nueva Vizcaya, 15 of which were covered by Mining Lease Contract (MLC) No. MRD-56,[5] while the remaining 66 had pending applications for lease.[6] On October 30, 1987, PMC entered into an Operating Agreement[7] (OA) with GVEI, granting the latter “full, exclusive and irrevocable possession, use, occupancy, and control over the [mining claims], and every matter pertaining to the examination, exploration, development and mining of the [mining claims] and the processing and marketing of the products x x x,”[8] for a period of 25 years.[9]

In a Letter[10] dated June 8, 1999, PMC extra-judicially rescinded the OA upon GVEI’s violation of Section 5.01,[11] Article V thereof. Cited as further justification for its action were reasons such as: (a) violation of Section 2.03, Article II of the OA, or the failure of GVEI to advance the actual cost for the perfection of the mining claims or for the acquisition of mining rights, cost of lease applications, lease surveys and legal expenses incidental thereto; (b) GVEI’s non-reimbursement of the expenses incurred by PMC General Manager Benjamin Saguid in connection with the visit of a financier to the mineral property in 1996; (c) its non-remittance of the US\$300,000.00 received from Excelsior Resources, Ltd.; (d) its non- disclosure of contracts entered into with other mining companies with respect to the mining claims; (e) its being a mere “promoter/broker” of PMC’s mining claims instead of being the operator thereof; and (f) its non- performance of the necessary works on the mining claims.[12]

GVEI contested PMC’s extra-judicial rescission of the OA through a Letter dated December 7, 1999, averring therein that its obligation to pay royalties to PMC arises only when the mining claims are placed in commercial production which condition has not yet taken place. It also reminded PMC of its prior payment of the amount of P185,000.00 as future royalties in exchange for PMC’s express waiver of any breach or default on the part of GVEI.[13]

PMC no longer responded to GVEI’s letter. Instead, it entered into a Memorandum of Agreement dated May 2,

2000 (MOA) with CVI, whereby the latter was granted the right to “enter, possess, occupy and control the mining claims” and “to explore and develop the mining claims, mine or extract the ores, mill, process and beneficiate and/or dispose the mineral products in any method or process,” among others, for a period of 25 years.[14]

Due to the foregoing, GVEI filed a Complaint[15] for Specific Performance, Annulment of Contract and Damages against PMC and CVI before the RTC, docketed as Civil Case No. 01-324.

The RTC Ruling

On August 18, 2006, the RTC rendered a Decision[16] in favor of GVEI, holding that since the mining claims have not been placed in commercial production, there is no demandable obligation yet for GVEI to pay royalties to PMC. It further declared that no fault or negligence may be attributed to GVEI for the delay in the commercial production of the mining claims because the non-issuance of the requisite Mineral Production Sharing Agreement (MPSA) and other government permits, licenses, and consent were all affected by factors beyond GVEI’s control. [17] The RTC, thus, declared the rescission of the OA void and the execution of the MOA between PMC and CVI without force and effect. In this relation, it ordered PMC to comply with the terms and conditions of the OA until the expiration of its period.[18]

At odds with the RTC’s ruling, PMC elevated the case on appeal to the CA.

The CA Ruling

In a Decision[19] dated July 23, 2009, the CA reversed the RTC ruling, finding that while the OA gives PMC the right to rescind only on the ground of (GVEI’s) failure to pay the stipulated royalties, Article 1191 of the Civil Code allows PMC the right to rescind the agreement based on a breach of any of its provisions.[20] It further held that the inaction of GVEI for a period of more than seven (7) years to operate the areas that were already covered by a perfected mining lease contract and to acquire the necessary permits and licenses amounted to a substantial breach of the OA, the very purpose of which was the mining and commercial distribution of derivative products that may be recovered from the mining property.[21] For the foregoing reasons, the CA upheld the validity of PMC’s rescission of the OA and its subsequent execution of the MOA with CVI.[22]

Dissatisfied with the CA’s ruling, GVEI filed a motion for reconsideration which was, however, denied by the CA in a Resolution[23] dated October 23, 2009, hence, this petition.

The Issue Before the Court

The central issue for the Court’s resolution is whether or not there was a valid rescission of the OA.

The Court’s Ruling

The Court resolves the issue in the affirmative.

In reciprocal obligations, either party may rescind the contract upon the other’s substantial breach of the obligation/s he had assumed thereunder. The basis therefor is Article 1191 of the Civil Code which states as follows:

Art. 1191. The power to rescind obligations is implied in reciprocal ones, in case one of the obligors should not comply with what is incumbent upon him.

The injured party may choose between the fulfillment and the rescission of the obligation, with the payment of damages in either case. He may also seek rescission, even after he has chosen fulfillment, if the latter should become impossible.

The court shall decree the rescission claimed, unless there be just cause authorizing the fixing of a period.

This is understood to be without prejudice to the rights of third persons who have acquired the thing, in accordance with Articles 1385 and 1388 and the Mortgage Law.

More accurately referred to as resolution, the right of rescission under Article 1191 is predicated on a breach of faith that violates the reciprocity between parties to the contract.[24] This retaliatory remedy is given to the contracting party who suffers the injurious breach on the premise that it is “unjust that a party be held bound to fulfill his promises when the other violates his.”[25]

As a general rule, the power to rescind an obligation must be invoked judicially and cannot be exercised solely on a party’s own judgment that the other has committed a breach of the obligation.[26] This is so because rescission of a contract will not be permitted for a slight or casual breach, but only for such substantial and fundamental violations as would defeat the very object of the parties in making the agreement.[27] As a well-established exception, however, an injured party need not resort to court action in order to rescind a contract when the contract itself provides that it may be revoked or cancelled upon violation of its terms and conditions.[28] As elucidated in *Froilan v. Pan Oriental Shipping Co.*,[29] “there is x x x nothing in the law that prohibits the parties from entering into agreement that violation of the terms of the contract would cause cancellation thereof, even without court intervention.”[30] Similarly, in *Dela Rama Steamship Co., Inc. v. Tan*,[31] it was held that judicial permission to rescind an obligation is not necessary if a contract contains a special provision granting the power of cancellation to a party.[32]

With this in mind, the Court therefore affirms the correctness of the CA’s Decision upholding PMC’s unilateral rescission of the OA due to GVEI’s non-payment of royalties considering the parties’ express stipulation in the OA that said agreement may be cancelled on such ground. This is found in Section 8.01, Article VIII[33] in relation to Section 5.01, Article V[34] of the OA which provides:

ARTICLE VIII

CANCELLATION/TERMINATION OF AGREEMENT

8.01 This Agreement may be cancelled or terminated prior to the expiration of the period, original or renewal mentioned in the next preceding Section only in either of the following ways:

- a. By written advance notice of sixty (60) days from OPERATOR to PINKIAN with or without cause by registered mail or personal delivery of the notice to PINKIAN.
- b. By written notice from PINKIAN by registered or personal deliver of the notice to OPERATOR based on the failure to OPERATOR to make any payments determined to be due PINKIAN under Section 5.01 hereof after written demand for payment has been made on OPERATOR: Provided that OPERATOR shall have a grace period of ninety (90) days from receipt of such written demand within which to make the said payments to PINKIAN.

ARTICLE V

ROYALTIES

5.01 Should the PROPERTIES be placed in commercial production the PINKIAN shall be entitled to a Royalty computed as follows:

- (a) For gold – 3.0 percent of net realizable value of gold
- (b) For copper and others – 2.0 percent of net realizable value

“Net REALIZABLE Value” is gross value less the sum of the following:

- (1) marketing expenses including freight and insurance;
- (2) all smelter charges and deductions;

- (3) royalty payments to the government;
- (4) ad valorem and export taxes, if any, paid to the government.

The aforesaid royalties shall be paid to PINKIAN within five (5) days after receipt of the smelter or refinery returns. (Emphases and underscoring supplied)

By expressly stipulating in the OA that GVEI's non-payment of royalties would give PMC sufficient cause to cancel or rescind the OA, the parties clearly had considered such violation to be a substantial breach of their agreement. Thus, in view of the above-stated jurisprudence on the matter, PMC's extra-judicial rescission of the OA based on the said ground was valid.

In this relation, the Court finds it apt to clarify that the following defenses raised by GVEI in its petition would not impel a different conclusion:

First, GVEI cannot excuse its non-payment of royalties on the argument that no commercial mining was yet in place. This is precisely because the obligation to develop the mining areas and put them in commercial operation also belonged to GVEI as it expressly undertook "to explore, develop, and equip the Claims to mine and beneficiate the ore thereof by any method or process"[35] and "to enter into contract, agreement, assignments, conveyances and understandings of any kind whatsoever with reference to the exploration, development, equipping and operation of the Claims, and the mining and beneficiation of the ore derived therefrom, and marketing the resulting marketable products."[36]

Records reveal that when the OA was signed on October 30, 1987, 15 mining claims were already covered by a perfected mining lease contract, i.e., MLC No. MRD-56, granting to the holder thereof "the right to extract all mineral deposits found on or underneath the surface of his mining claims x x x; to remove, process and otherwise utilize the mineral deposits for his own benefit."[37] This meant that GVEI could have immediately extracted mineral deposits from the covered mineral land and carried out commercial mining operations from the very start. However, despite earlier demands made by PMC, no meaningful steps were taken by GVEI towards the commercial production of the 15 perfected mining claims and the beneficial exploration of those remaining. Consequently, seven years into the life of the OA, no royalties were paid to PMC. Compounding its breach, GVEI not only failed to pay royalties to PMC but also did not carry out its obligation to conduct operations on and/or commercialize the mining claims already covered by MLC No. MRD-56. Truth be told, GVEI's non-performance of the latter obligation under the OA actually made the payment of royalties to PMC virtually impossible. Hence, GVEI cannot blame anyone but itself for its breach of the OA, which, in turn, gave PMC the right to unilaterally rescind the same.

Second, neither can GVEI successfully oppose PMC's rescission of the OA on the argument that the ground to rescind the OA was only limited to its non-payment of royalties precisely because said ground was actually among the reasons for PMC's rescission thereof. Considering the stipulations above-cited, the ground for non-payment of royalties was in itself sufficient for PMC to extra-judicially rescind the OA.

In any event, even discounting the ground of non-payment of royalties, PMC still had the right to rescind the OA based on the other grounds it had invoked therefor, namely, (a) violation of Section 2.03, Article II of the OA, or the failure of GVEI to advance the actual cost for the perfection of the mining claims or for the acquisition of mining rights, cost of lease applications, lease surveys and legal expenses incidental thereto, (b) GVEI's non-reimbursement of the expenses incurred by PMC General Manager Benjamin Saguid in connection with the visit of a financier to the mineral property in 1996, (c) its non-remittance of the US\$300,000.00 received from Excelsior Resources, Ltd., (d) its non-disclosure of contracts entered into with other mining companies with respect to the mining claims, (e) its being a mere "promoter/broker" of PMC's mining claims instead of being the

operator thereof, and (f) its non-performance of the necessary works on the mining claims, albeit the said grounds should have been invoked judicially since the court would still need to determine if the same would constitute substantial breach and not merely a slight or casual breach of the contract. While Section 8.01, Article VIII of the OA as above-cited appears to expressly restrict the availability of an extra-judicial rescission only to the grounds stated thereunder, the Court finds that the said stipulation does not negate PMC's implied statutory right to judicially rescind the contract for other unspecified acts that may actually amount to a substantial breach of the contract. This is based on Article 1191 of the Civil Code (also above-cited) which pertinently provides that the "power to rescind obligations is implied in reciprocal ones, in case one of the obligors should not comply with what is incumbent upon him" and that "[t]he court shall decree the rescission claimed, unless there be just cause authorizing the fixing of a period."

While it remains apparent that PMC had not judicially invoked the other grounds to rescind in this case, the only recognizable effect, however, is with respect to the reckoning point as to when the contract would be formally regarded as rescinded. Where parties agree to a stipulation allowing extra-judicial rescission, no judicial decree is necessary for rescission to take place; the extra-judicial rescission immediately releases the party from its obligation under the contract, subject only to court reversal if found improper. On the other hand, without a stipulation allowing extra-judicial rescission, it is the judicial decree that rescinds, and not the will of the rescinding party. This may be gathered from previous Court rulings on the matter.

For instance, in *Ocejo, Perez & Co. v. International Banking Corporation*,^[38] where the seller, without having reserved title to the thing sold, sought to re-possess the subject matter of the sale through an action for replevin after the buyer failed to pay its purchase price, the Court ruled that the action of replevin (which operates on the assumption that the plaintiff is the owner of the thing subject of the suit) "will not lie upon the theory that the rescission has already taken place and that the seller has recovered title to the thing sold." It held that the title which had already passed by delivery to the buyer is not ipso facto re-vested in the seller upon the latter's own determination to rescind the sale because it is the judgment of the court that produces the rescission.

On the other hand, in *De Luna v. Abrigo* ^[39] (*De Luna*), the Court upheld the validity of a stipulation providing for the automatic reversion of donated property to the donor upon non-compliance of certain conditions therefor as the same was akin to an agreement granting a party the right to extra-judicially rescind the contract in case of breach. The Court ruled, in effect, that a subsequent court judgment does not rescind the contract but merely declares the fact that the same has been rescinded, viz.:

[J]udicial intervention is necessary not for purposes of obtaining a judicial declaration rescinding a contract already deemed rescinded by virtue of an agreement providing for rescission even without judicial intervention, but in order to determine whether or not the rescission was proper.^[40] (Emphases and underscoring supplied)

A similar agreement in *Roman Catholic Archbishop of Manila v. CA*^[41] allowing the ipso facto reversion of the donated property upon non-compliance with the conditions was likewise upheld, with the Court reiterating *De Luna* and declaring in unmistakable terms that:^[42]

Where [the propriety of the automatic rescission] is sustained, the decision of the court will be merely declaratory of the revocation, but it is not in itself the revocatory act. (Emphasis and underscoring supplied)

This notwithstanding, jurisprudence still indicates that an extra-judicial rescission based on grounds not specified in the contract would not preclude a party to treat the same as rescinded. The rescinding party, however, by such course of action, subjects himself to the risk of being held liable for damages when the extra-judicial rescission is questioned by the opposing party in court. This was made clear in the case of *U.P. v. De Los Angeles*,^[43]

wherein the Court held as follows:

Of course, it must be understood that the act of a party in treating a contract as cancelled or resolved on account of infractions by the other contracting party must be made known to the other and is always provisional, being ever subject to scrutiny and review by the proper court. If the other party denies that rescission is justified, it is free to resort to judicial action in its own behalf, and bring the matter to court. Then, should the court, after due hearing, decide that the resolution of the contract was not warranted, the responsible party will be sentenced to damages; in the contrary case, the resolution will be affirmed, and the consequent indemnity awarded to the party prejudiced.

In other words, the party who deems the contract violated may consider it resolved or rescinded, and act accordingly, without previous court action, but it proceeds at its own risk. For it is only the final judgment of the corresponding court that will conclusively and finally settle whether the action taken was or was not correct in law.

x x x.[44] (Emphases and underscoring supplied)

The pronouncement, which was also reiterated in the case of *Angeles v. Calasanz*, [45] sought to explain various rulings that continued to require judicial confirmation even in cases when the rescinding party has a proven contractual right to extra-judicially rescind the contract. The observation then was mainly on the practical effect of a stipulation allowing extra-judicial rescission being merely “to transfer to the defaulter the initiative on instituting suit, instead of the rescinder.”[46]

Proceeding from the foregoing, the Court has determined that the other grounds raised by PMC in its Letter dated June 8, 1999 to GVEI (the existence of which had not been convincingly disputed herein) amounts to the latter’s substantial breach of the OA. To the Court’s mind, said infractions, when taken together, ultimately resulted in GVEI’s failure to faithfully perform its primordial obligation under the OA to explore and develop PMC’s mining claims as well as to put the same into commercial operation. Accordingly, PMC’s rescission of the OA on the foregoing grounds, in addition to the ground of non-payment of royalties, is equally valid.

Finally, the Court cannot lend credence to GVEI’s contention that when PMC entered into an agreement with CVI covering the mining claims, it was committing a violation of the terms and conditions of the OA. As above-explained, the invocation of a stipulation allowing extra-judicial rescission effectively puts an end to the contract and, thus, releases the parties from the obligations thereunder, notwithstanding the lack of a judicial decree for the purpose. In the case at bar, PMC, through its Letter dated June 8, 1999 to GVEI, invoked Section 8.01, Article VIII in relation to Section 5.01, Article V of the OA which allows it to extra-judicially rescind the contract for GVEI’s non-payment of royalties. Thus, at that point in time, PMC had effectively rescinded the OA and was then considered to have been released from its legal effects. Accordingly, there stood no legal impediment so as to hinder PMC from entering into a contract with CVI covering the same mining claims subject of this case.

In fine, the Court denies the instant petition and affirms the assailed

CA Decision and Resolution.

WHEREFORE, the petition is DENIED. The Decision dated July 23, 2009 and the Resolution dated October 23, 2009 of the Court of Appeals in CA-G.R. CV. No. 90682 are hereby AFFIRMED.

SO ORDERED.

Carpio, (Chairperson), Brion, Del Castillo, and Perez, JJ., concur.

[1] Rollo, pp. 10-45.

[2] Id. at 51-64. Penned by Associate Justice Marlene Gonzales-Sison, with Associate Justices Bienvenido L. Reyes (now Supreme Court Associate Justice) and Isaias P. Dicdican, concurring.

[3] Id. at 66-67.

[4] Id. at 110-120. Penned by Presiding Judge Cesar D. Santamaria.

[5] Approved under Presidential Decree No. 463, entitled "PROVIDING FOR A MODERNIZED SYSTEM OF ADMINISTRATION AND DISPOSITION OF MINERAL LANDS AND TO PROMOTE AND ENCOURAGE THE DEVELOPMENT AND EXPLOITATION THEREOF."

[6] Rollo, p. 110.

[7] Id. at 75-98.

[8] Id. at 82.

[9] Id. at 88.

[10] Id. at 99-100.

[11] "5.01 Should the PROPERTIES be placed in commercial production the PINKIAN [herein PMC] shall be entitled to a Royalty computed as follows:

(a) For gold - 3.0 percent of net realizable value of gold

(b) For copper and others - 2.0 percent of net realizable value x x x x

The aforesaid royalties shall be paid to [PMC] within five (5) days after receipt of the smelter or refinery returns." (Id. at 86-87.)

[12] Id. at 103-104.

[13] Id. at 16-17 and 104.

[14] Id. at 17 and 105.

[15] Id. at 101-109.

[16] Id. at 110-120.

[17] See id. at 113-115.

[18] Id. at 119-120.

[19] Id. at 51-64.

[20] See id. at 55-57.

[21] See id. at 62-63.

[22] Id. at 63.

[23] Id. at 66-67.

[24] See *Spouses Cannu v. Spouses Galang*, 498 Phil. 128, 145 (2005); citing the Concurring Opinion of Justice

Jose B.L. Reyes in *Universal Food Corp. v. CA*, 144 Phil. 1, 21-22 (1970).

[25] *Universal Food Corp. v. CA*, *id.*

[26] See *Phil. Amusement Enterprises, Inc. v. Natividad*, 128 Phil. 320, 325 (1967).

[27] *Eds Manufacturing, Inc. vs. Healthcheck International, Inc.*, G.R. No. 162802, October 9, 2013. See also *Spouses Cannu v. Spouses Galang*, *supra* note 24, at 140.

[28] See *Spouses Faustino and Josefina Garcia v. CA*, G.R. No. 172036, April 23, 2010, 619 SCRA 280, 286-290.

[29] 120 Phil. 1066 (1964).

[30] *Id.* at 1078.

[31] 99 Phil. 1034 (1956) unreported case.

[32] *Id.* See also *Hon. Enrile v. CA*, 140 Phil. 199, 206 (1969).

[33] *Rollo*, pp. 91-92

[34] *Id.* at 86-87.

[35] *Id.* at 79.

[36] *Id.* at 80.

[37] Section 44 of Presidential Decree No. 463 provides:

Sec. 44. x x x. – A mining lease contract shall grant to the lessee, his heirs, successors and assigns, the right to extract all mineral deposits found on or underneath the surface of his mining claims covered by the lease, continued vertically downward; to remove, process and otherwise utilize the mineral deposits for his own benefit; and to use the lands covered by the lease for the purpose or purposes specified therein: x x x.

[38] G.R. No. L-10658, February 14, 1918.

[39] 260 Phil. 157 (1990).

[40] *Id.* at 166.

[41] G.R. Nos. 77425 and 77450, June 19, 1991, 198 SCRA 300.

[42] *Id.* at 308-309.

[43] 146 Phil. 108 (1970).

[44] *Id.* at 114-115.

[45] 220 Phil. 10, 17-18 (1985).

[46] *U.P. v. De Los Angeles*, *supra* note 42, at 116.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.