

# Saracen Mineral Holdings Ltd

## (SAR \$0.22) Buy, Initiation of Coverage

13 August 2009

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## Investment Case

### Low capital, emerging gold producer

- ▶ SAR offers exposure to an emerging, low capital intensity gold producer with a resource base of +2moz and significant land holding in a proven gold belt.
- ▶ First production is slated for Mar'10 with annual production estimated at 110koz at an operating cost of ~A\$670/oz.
- ▶ Initial capex is estimated at \$27m to refurbish the mill and cut back/pre strip open pits at Whirling Dervish and Porphyry.
- ▶ Reserves of 580koz support a mine life of ~ 6 yrs
- ▶ Grid power is likely to be installed by the end of CY'10. This should reduce operating costs by ~ \$3/t or around \$50/oz.
- ▶ A recent \$20m debt and \$28m equity raising means SAR is fully funded through to first production with sufficient cash to continue exploration with drilling planned at Million Dollar, Wallbrook and Porphyry.
- ▶ Key assets include a 2.4mtpa mill, 150 man camp and associated infrastructure that are in excellent condition. The replacement value of these assets would be in the order of \$100-120m.
- ▶ SAR differentiates itself from many of its peers (ie CAH and IGR) with a low capital route to development and earlier production. It has similar operating costs to CAH, slightly higher than IGR but capex is >50% less.
- ▶ SAR is cheap it trades on Enterprise per reserve and resource ounce multiples of ~ \$90/oz and \$20/oz respectively well below market averages of established producers of +\$200/oz and +\$100/oz respectively.
- ▶ We forecast EBITDA of \$40-50m pa and NPAT of \$20-25m pa. This equates to a PER of <4x.
- ▶ Our valuation of \$0.42/sh is based on the current defined reserve and a nominal \$20m for the remaining 1.4moz resource ounces. The leverage to gold price and/or exploration success is large as each additional yr of mine life adds 15% to our valuation.
- ▶ We initiate coverage with a Buy recommendation for exposure to a medium cost, low capital emerging gold producer. Short term catalysts are
  - Successful commissioning of Carouse Dam
  - Achieving production forecasts and operating costs.
  - Drilling at Porphyry, Million Dollars and other prospects.

## Contact Details

**Analyst**  
**Andrew Clayton**

Telephone: +61 8 9488 1427  
Facsimile: +61 8 9488 1479  
Email: aclayton@euroz.com.au

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### Forecast Earnings

#### Yr End 30 June

	09f	10f	11f	12f
OP Revenue (\$m)	2	45	132	128
NPBT (\$m)	(3)	14	39	40
NPAT (\$m)	(2)	10	27	28
EPS (c)	n/a	3	27	28
PER (x)	n/a	9	3	3

#### Cashflow (\$m)

CFPS (c)	(1.1)	5	11	12
CFR (x)	n/a	4	2	2
DPS (c)	-	-	-	-
Yield (%)				

### Market Statistics

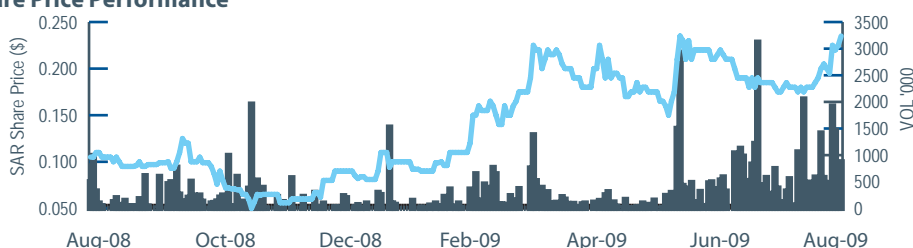
#### Issued Capital

FPO Ord Share	355m
Opts (@ \$0.23/sh June'13)	7.1 m
Opts (@ \$0.18/sh July'12)	12.5m
Opts(various)	9.5m

#### Market Capitalisation

Cash	\$80m
Debt	\$30m
Valuation -Base Case	nil
Year Low - High	\$0.42/sh
Average Daily Volume	\$0.05- \$0.25
Major Shareholder - Clodene 9% Dir & Mir 9%	0.27m

### Share Price Performance



# Saracen Mineral Holdings Ltd

13 August 2009

# EUROZ

SECURITIES LIMITED  
AUSTRALIAN RESEARCH

SARACEN MINERAL HOLDINGS LTD (SAR)		YEAR END 30 JUNE	
<b>MARKET STATISTICS</b>			
<b>Share Price</b>	<b>\$0.22 A\$/sh</b>	<b>Directors</b>	
<b>Issued Capital</b>		G.Staltari	Ex Chair'n
FP Ord	353.0m	I.Hoffman	Dir
Opt (@\$0.20/sh 15/11/09)	10.7m	B.Parker - Dir	
		C.Thompson	Dir
<b>Total Dil. FPOrd</b>	<b>363.7m</b>	<b>Shareholders</b>	
Market Capitalisation	\$80m	Dir + Mgt	9%
Enterprise Value	\$50m	Clodene	9%
Debt	\$- m		
Cash	\$30m		
Hedging			
<b>ASSET VALUATION</b>		<b>A\$m</b>	<b>A\$/sh</b>
Sth Laverton Gold project		113	0.30
Corporate		(9)	(0.02)
Expl'n (rem rsc @ \$20/oz)		20	0.05
Unpaid Capital		2	0.01
Debt		-	-
Cash		30	0.08
<b>Total @ 10% real</b>		<b>155</b>	<b>0.42</b>
Total @ 0% real		210	0.56
Total @ 5% real		179	0.48
Total @ 15% real		137	0.37
<b>FORECAST PRODUCTION</b>		<b>2009f</b>	<b>2010f</b>
<b>Attrib. Prod'n (koz)</b>		<b>2011f</b>	<b>2012f</b>
Carouse Dam		0	35
		113	107
<b>Total Attrib (koz)</b>		<b>0</b>	<b>35</b>
		<b>113</b>	<b>107</b>
<b>Prices (A\$/oz)</b>			
Avg Spot Gold Price		677	1,175
Avg Gold Price Rec'd		677	1,279
		1,162	1,184
<b>Cash Cost (A\$/oz)</b>			
Carouse Dam		670	673
		655	
<b>Avg Cash Cost (A\$/oz)</b>		<b>670</b>	<b>673</b>
<b>Avg Total Cost (A\$/oz)</b>		<b>759</b>	<b>781</b>
<b>RATIO ANALYSIS</b>		<b>2009f</b>	<b>2010f</b>
CF (A\$m)		14	41
CF / Sh (Ac/sh)		4	11
CF Ratio (x)		6.1	2.1
		2.0	
Earnings (A\$m)		10	27
EPS (Ac/sh)		2.6	7.2
EPS Growth (%)		-432%	178%
Earnings Ratio (x)		8.9	3.2
		3.0	
E'prise Val. (A\$m)		90	66
EV : EBITDA (x)		4.9	1.3
EV : EBIT (x)		6.5	1.7
		0.8	
Net Debt / ND+Eq (%)		15%	-45%
Interest Cover (x)		143	85
		(61)	
EBIT Margin (%)		31%	30%
ROE (%)		29%	47%
ROA (%)		28%	59%
		50%	
Div. (Ac/sh)		-	-
Div. payout ratio		0%	0%
Div. Yield		0%	0%
Div. Franking		0%	0%

<b>PROFIT AND LOSS</b>	<b>2008a</b>	<b>Jun H'09f</b>	<b>2009f</b>	<b>2010f</b>	<b>2011f</b>
Gold Sales			0.5	44.3	131.3
Hedging Revenue			-	-	-
Deferred Revenue			-	-	-
Interest Revenue			0.2	0.5	0.7
Other Revenue			-	-	-
<b>TOTAL REVENUE</b>			<b>0.7</b>	<b>44.8</b>	<b>132.0</b>
<b>2011f</b>					<b>128.0</b>
Operating Costs			0.2	23.1	76.0
Dep/Amort			0.0	3.1	12.3
W/O & Provisions			1.2	1.2	1.2
Corp O/H			3.0	3.0	3.0
EBITDA			(2.7)	18.2	52.3
EBIT			(3.9)	13.9	38.8
Interest Expense			0.3	0.6	1.2
NPBT			(4.0)	13.8	38.4
Tax			(1.2)	4.1	11.5
Minorities			-	-	-
<b>NET PROFIT</b>			<b>(2.8)</b>	<b>9.6</b>	<b>26.8</b>
<b>2011f</b>					<b>28.1</b>
Net Abnormal Gain/(Loss)			-	-	-
<b>NET PROFIT After Abn'l</b>			<b>(2.8)</b>	<b>9.6</b>	<b>26.8</b>
<b>2011f</b>					<b>28.1</b>
<b>CASH FLOW</b>		<b>2009f</b>	<b>2010f</b>	<b>2011f</b>	<b>2012f</b>
Net Profit		(2.8)	9.6	26.8	28.1
+ Working Capital Adj.		(5.0)	(5.0)	-	-
+ Dep/Amort		0.0	3.1	12.3	13.1
+ Provisions		1.2	1.2	1.2	1.2
+ Tax Expense		(1.2)	4.1	11.5	12.0
- Tax Paid		(0.7)	(1.1)	10.9	11.2
- Deferred Revenue		-	-	-	-
<b>Operating Cashflow</b>		<b>(2.2)</b>	<b>14.2</b>	<b>40.9</b>	<b>43.3</b>
-Capex + Development		6.0	28.0	12.0	2.0
-Exploration		13.0	6.0	6.0	4.0
-Assets Purchased		-	-	-	-
+Asset Sales		-	-	-	-
+ Other		-	-	-	-
<b>Investing Cashflow</b>		<b>(19.0)</b>	<b>(34.0)</b>	<b>(18.0)</b>	<b>(6.0)</b>
+Equity Issues		28.0	-	-	-
+Loan D'down/Receivable		-	15.0	-	-
-Loan Repayment		-	-	6.3	12.5
-Dividends		-	-	-	-
<b>Financing Cashflow</b>		<b>28.0</b>	<b>15.0</b>	<b>(6.3)</b>	<b>(12.5)</b>
<b>Period Sur (Def)</b>		<b>6.8</b>	<b>(4.8)</b>	<b>16.7</b>	<b>24.8</b>
<b>Cash Balance</b>		<b>13.7</b>	<b>8.9</b>	<b>25.6</b>	<b>50.3</b>
<b>BALANCE SHEET</b>		<b>2009f</b>	<b>2010f</b>	<b>2011f</b>	<b>2012f</b>
<b>Assets</b>					
Cash		13.7	8.9	6.9	13.7
Current Receivables		0.1	0.1	0.1	0.1
Other Current Assets		0.1	0.1	0.1	0.1
Non-Current Assets		15.1	40.0	15.1	15.1
<b>Total Assets</b>		<b>29.0</b>	<b>49.1</b>	<b>22.2</b>	<b>29.0</b>
<b>Liabilities</b>					
Borrowings		-	15.0	8.0	-
Current Accounts Payable		0.5	0.5	0.5	0.5
Other Liabilities		-	-	-	-
<b>Total Liabilities</b>		<b>0.5</b>	<b>15.5</b>	<b>8.5</b>	<b>0.5</b>
<b>Net Assets</b>		<b>28.5</b>	<b>33.6</b>	<b>13.7</b>	<b>28.5</b>
<b>RESOURCES AND RESERVES</b>		<b>Reserves</b>		<b>Resources</b>	
		<b>mt</b>	<b>g/t</b>	<b>mt</b>	<b>g/t</b>
Sth Laverton		10.50	1.70	34.0	1.8
		580		2,020	
<b>Equity Share Gold</b>		<b>580</b>		<b>18</b>	<b>2.8</b>
<b>Enterprise Value / oz (A\$)</b>		<b>86</b>			<b>25</b>

## Executive Summary

The Sth Laverton Project (previously called Carouse Dam) and owned by Pacmin was commissioned in Nov'2000 after capital expenditure of +A\$50m. The plant ran for ~ 5 yrs before being placed on care and maintenance in mid 2005 due to low A\$ gold prices of <A\$600/oz. In Oct'01 Sons of Gwalia took over Pacmin in an all scrip bid.

St Barbara Mines ('SBM') acquired all of Sons of Gwalia gold assets (including Carouse Dam) in March 2005. Its main focus was the Sth Cross and Gwalia operations and in Oct'05 reached agreement to sell the Sth Laverton project to SAR for total consideration of ~ \$8m comprising \$4m in cash and \$4m in SAR scrip. In addition SAR replaced environmental bonds with the Department in the amount of ~\$9.2m.

At the time of acquisition, the key assets were

- The Carouse Dam 2.4mtpa processing facility, together with associated plant and equipment.
- Total gold resource of ~ 870koz including 110koz of high grade ore at Red October
- Approximately 160 granted tenements and 160 pending tenement applications in Sth Laverton region.

Since acquisition SAR has further consolidated the region by acquiring the 0.54moz Wallbrook deposit from Jackson Minerals Ltd in Mar'07 for ~\$7m in a mixture of cash and scrip.

Exploration success plus this acquisition saw the resource base increase to ~ 2.1moz.

Escalating costs during the mining boom saw a cautious approach to a potential re-start of this operation and really it wasn't until the A\$ gold price rose to +A\$1000/oz in Oct'08 the project looked to be viable. This also coincided with a fall in costs including diesel fuel (which the project is highly sensitive to) and the economics have further improved with the recent news that grid power will be available in CY'10.

Importantly SAR is one of the few new gold projects that offers both a short lead time to production and low (<A\$30m) capital cost. Production is scheduled to begin in Mar'10 with annual gold production of +100koz pa. The replacement cost of the existing infrastructure is in the order of +\$100m or ~ 1.3x the current market capitalisation.

Management has a good track record of successfully operating mid tier resource companies. Guido Staltari, Executive Chairman and largest shareholders previously ran Burmine, a 150koz pa gold producer which was ultimately acquired by Sons of Gwalia. Barrie Parker, an executive director and Project Mgr has extensive experience in project development and construction – including initial development of Sunrise Dam and Boddington.

We like the exploration upside as this is a proven gold belt with some 23moz of gold discovered and mined in the region. In particular the Red October high grade deposit offers both open cut and underground potential and drilling will start shortly to test extensions along strike and down plunge. In addition the area around Porphyry – Million Dollars looks prospective.

A recent site trip has confirmed the company is on track to start production in the 1st Q CY'10. Most key personnel have been appointed and the diligence on the resource modelling etc has been thorough. We were impressed with key management, the infrastructure and the exploration upside and initiate coverage with a buy recommendation and a \$0.40/sh target price.

## Valuation

Our valuation of \$0.42/sh is based on the revised reserve estimate of 580koz.

We model in the 2.4mtpa plant producing some 110koz at an average operating cost of A\$670/oz for 6 yrs. Initial capex is as per the BFS at A\$25m. We forecast first gold pour in Mar'10.

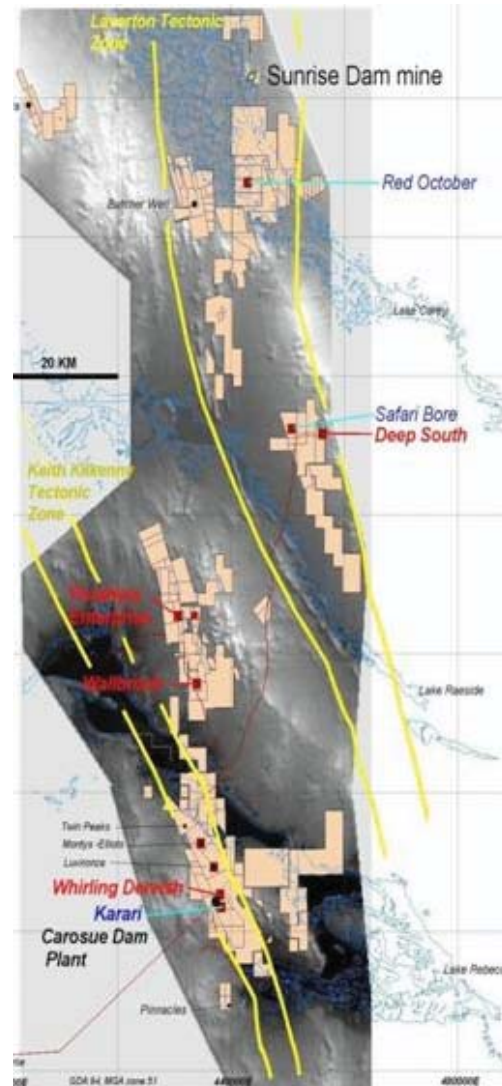
The project is subject to two royalties; a 2.5% State Royalty and a 1.5% royalty to the International Royalty Company.

The project is fully funded following a recent \$20m debt facility executed with RMB and a \$28m equity raising at \$0.18/sh. The debt is yet to be drawn down and we forecast that SAR will end up only drawing down \$15m from the facility.

## South Laverton Project (SAR 100%)

### Location

The project is located in the South Laverton region of Western Australia, ~120km North-East of Kalgoorlie. The tenement holdings are located largely within two gold- mineralised regional tectonic zones where gold resource discoveries/miners in recent years have totalled around 23moz of gold.



Stage 1 : Red

Stage 2 : Blue

### Bankable Feasibility study

Since 2005 SAR mill has spent some +\$10m on exploration and more than doubled the overall resource base to 2.0moz. It also acquired Jacksons Gold whose key asset was the Wallbrook resource, located some 40km from the Carosue Dam processing.

Importantly a strong rise in the A\$ gold price combined with significant sunk capital meant SAR was in a position to look at re starting the Carosue Dam processing facility. In late 2008 SAR announced initial reserves of ~ 361koz @ 1.8 g/t Au. This was subsequently upgraded to 580koz @ 1.7 g/t and formed the basis of the BFS.

**Reserve Table**

Gold Deposit	Probable Reserve (tonnes)	Gold Grade (g/t)	Contained Ounces
Whirling Dervish	4,312,000	1.6	217,000
Porphyry	2,755,000	1.6	142,000
Porphyry UG	643,000	3.4	70,000
Wallbrook	1,596,000	1.5	76,000
Enterprise	261,000	2.1	18,000
Deep South	315,000	3.1	31,000
Surface Stockpiles	647,000	1.2	25,000
<b>Total</b>	<b>10,500,000</b>	<b>1.7</b>	<b>580,000</b>

*Source: Saracen Mineral Holdings Ltd*

Gold production will proceed in two phases, with phase 1 comprising production from Porphyry, Whirling Dervish, Wallbrook, Enterprise and Deep South open pits.

Saracen is aiming for first gold production in Mar'10 with initial capex estimated at \$27m. In addition SAR has secured grid power which is expected to be available in late 2010. SAR has indicated capex for grid power to be in the order of \$10-15m with cash cost savings in the order of \$60/oz. We assume grid power will be installed by the end of CY'10, with capex funded from cashflow and/or a working capital debt facility.

Reserves:	580koz @ 1.7 g/t Au
Capex:	\$27m
Throughput:	2.4mpta
Recoveries:	94%
Production:	110koz pa
Operating cost	\$670/oz (life of mine)
Mine Life:	~6yrs
NPV @ 10% dcf:	\$113m

Phase 2 would commence in mid 2012 and would comprise production from stage 2 cutbacks on Porphyry, Whirling Dervish and Wallbrook. The main reserve increase (from 361koz to 586koz) was from Porphyry where an underground reserve of 70koz @ 3.4 g/t Au was defined. Whilst the grade is low, the planned development will be in ore and the proposed decline continuing on from the existing development.

Whirling Dervish reserves increased by 114koz to 217koz on the basis of a larger open pit which encompasses lower grade hanging wall lodes and stockwork mineralisation. Once the cut-back has been completed the strip ratio falls to 1.2:1.

Phase 3 may comprise additional feed from Wallbrook, supplemented by potential underground ore from Red October and/or Deep South, as well as additional mineable material that might be defined through ongoing exploration and pre-development activity.

Red October underground mining studies are presently under and it is likely that Red October will be developed solely as an Underground Mine. The previously contemplated open pit cut-back is less favoured by the company on the present evidence and financial modelling.

## Exploration

The exploration potential is significant. Whilst certain areas have been relatively well drilled, the bulk of the drilling has been shallow at depth <250m vertical depth. As AVO has demonstrated there is potential to discover new orebodies at depth.

The area between Porphyry underground and the open pit at Million dollars is a prime exploration target. The deepest hole to date intersected mineralisation at 250m and remains untested below this. Geological interpretation suggests the orebody continues towards Million Dollars and assuming the shallow plunge remains the target mineralisation would be at a depth of ~500m vertically. This will be tested over the next six months.

Red October is also a high quality exploration target with both open pit and underground resource expansions possible.

## Key Risks

As opposed to most new gold projects where the risks are both capital and operating, we see the major risk for SAR as operating risk due to the fairly low grade of the ore. The plant and infrastructure is in excellent condition and we would not expect capital cost to 'blow out'.

Management are well aware of this risk and the integrity of the resource has been extensively studied, both internally and by well respected external consultants. In addition some of the orebodies have been previously mined so there is a substantial amount of historical data available to use.

As a medium cost price SAR is leveraged to the A\$ gold price if this falls to below \$1000/oz, margins would be squeezed and the investment case less attractive.

## Timetable to Production

The timetable to production is outlined below. Unlike many new developments this is a low capital development to production and as such we believe the timetable is certainly achievable.

Environmental Approvals by Jul'09

Contracts Awarded by Aug'09

Project Development by Sep'09

Mill Refurbishment by Nov'09

Mining Commence by Feb'10

Processing Commence by Mar'10 – 1st gold pour.

## Directors

### **Guido Staltari (Executive Chairman)**

Guido was appointed to the board on 18 August 2003. He holds a Bachelor of Science (Honours) degree and is a Fellow of the Australian Institute of Geoscientists. He worked for North Broken Hill Ltd, BHP Minerals Ltd, and also as a mining and petroleum industry consultant before establishing his first publicly listed mineral exploration company in early 1987. He has experience in the management of public companies and is currently a director of Renaissance Capital Pty Limited.

### **Carl Thompson (Non-Executive Director)**

Carl joined the board on 21 August 2003. He holds law and commerce degrees from the University of Melbourne. He was previously a partner of a national law firm, Corrs Chambers Westgarth, practising in the areas of business acquisitions and sales, business structures, capital raisings and company floats, mergers and acquisitions, and the securities industry.

### **Ivan Hoffman (Non-Executive Director)**

Mr Hoffman was appointed a director on 13 May 2005. Mr Hoffman is a Certified Practising Accountant and a Fellow of the Institute of Corporate Managers, Secretaries and Administrators. For around 18 years, Mr Hoffman was a corporate advisory consultant specialising in mergers & acquisitions and company reconstructions.

### **Barrie Parker (Non-Executive Director)**

Mr Parker was appointed a director on 24 December 2007. Mr Parker holds a degree in Minerals Engineering from the University of Birmingham and is a Fellow of the Australasian Institute of Mining and Metallurgy. He has worked in the international mining industry for almost 40 years, primarily in operations management and project development roles. His most recent position was as the Regional Manager and Director of the AngloGold companies in Australia and South East Asia.

<b>Directors Shareholding</b>	<b>Shareholding No of shares</b>	<b>No of options</b>
Guido Staltari Executive Chairman	28,379,474	5,721,437
Carl Thompson	786,667	nil
I Hoffman	nil	nil
B.Parker	nil	nil

## Top 20 Shareholders

CompanyName		as at 12 August 2009	
No.	Shareholder	Shares (m)	(%)
1	National Nominees Limited	40.76	11.46
2	ANZ Nominees Limited	30.76	8.65
3	Renaissance Capital Pty Ltd	23.56	6.62
4	Straits Mineral Investments	16.67	4.69
5	Fortis Clearing Nominees P/L	15.34	4.31
6	HSBC Custody Nominees (Australia) Limited	13.72	3.86
7	Clodene Pty Ltd	10.35	2.91
8	Wroxby Pty Ltd	10.00	2.81
9	J P Morgan Nominees Australia Limited	8.53	2.40
10	Escor Investments	8.33	2.34
11	Nefco Nominees Pty Ltd	8.15	2.29
12	Laguna Bay Capital Pty Ltd	7.25	2.04
13	BT Portfolio Services Limited	6.15	1.73
14	Hestian Pty Ltd	5.76	1.62
15	Flavia Investments Pty Ltd	5.11	1.44
16	Guardian Funds Management Ltd	4.58	1.29
17	Resource Consulting Services Pty Ltd	4.50	1.26
18	Clodene Pty Ltd	4.47	1.26
19	Citicorp Nominees Pty Limited	4.35	1.22
20	Clodene Pty Ltd Level	3.45	0.97
	<b>TOTAL</b>	<b>231.77</b>	<b>65.17</b>

## Saracen Mineral Holdings Ltd

Level 7  
350 Collins St  
Melbourne, VIC, 3000

Telephone: +61 3 9670 0040  
Facsimile: +61 3 9670 0049

[www.saracen.com.au](http://www.saracen.com.au)

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