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(Adds comments.)

By Katrina Bishop  
Of DOW JONES NEWSWIRES

LONDON (Dow Jones)--Chinese demand for molybdenum will lead to a shortfall in supply, according to Mosquito Consolidated Gold Mines (MSQ.V), a Canada-based mining company that hopes to start large-scale production at its CUMO molybdenum deposit within six years.

"Steel production growth is clearly becoming established, and global molybdenum supply has been exaggerated," said Brian McClay, President and Chief Executive of Mosquito. "This will lead to the scenario of not enough global molybdenum production--we will have a shortfall in supply," he added.

Molybdenum is used in production of steel alloys because of its strength and corrosion resistant qualities. The steel industry currently accounts for around 70% of molybdenum consumption.

He added that China in particular is in the process of expanding its steel projects, following 2009 highs in Chinese steel production because of the country's stimulus plan, which focused on infrastructure.

"Steel is the foundation of China's long-term development views, and we have what the Chinese want," said McClay.

Despite his forecasted shortfall in molybdenum supply, however, McClay doesn't forecast any large price increases. "We are seeing the price of molybdenum oxide staying around \$15 per pound, which we consider to be an acceptable and rational price," he said.

Molybdenum oxide is currently trading around \$15.50/lb, up \$3.80 from Dec. 18.

Mosquito's CUMO deposit is the largest untapped open-pit molybdenum deposit in the world, and is estimated to contain around 2.3 billion pounds of molybdenum.

"We are aiming for large-scale production from CUMO in between five and six years time," McClay said, adding that Mosquito expects to mine around 120,000 metric tons a day of molybdenum, copper and silver, which are also found in the deposit.

"We aim to have the lowest costs producing molybdenum--we are aiming for producing at \$3/lb, and if we anticipate \$15/lb molybdenum (prices) that is clearly economic. We will be the lowest cost producer, primarily because of economy of scale--because of the size of the deposit," he added.

Mosquito intends to advance project to feasibility within two and a half years, which it expects to cost \$75 million.

"We will then seriously assess our options and sell, enter into a joint-venture with a steel consortium or mining companies, or seek financing to progress to production ourselves," McClay said.

There has been financial interest in the deposit, primarily from the Chinese, McClay said. For CUMO to reach production, Mosquito anticipates capital costs of around \$2.5 billion.

Mosquito acquired the rights in 2004 to the CUMO deposit, which is located in Idaho, U.S. A drilling program and environmental base-line studies are currently underway at the deposit, ahead of an upcoming preliminary economic assessment.

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