



## Alexco Resource Corp. - Chairman's Annual Message to Shareholders

(all amounts in CAD unless otherwise indicated)

May 2, 2019

2018 was a transitional year for Alexco, as we continued to make steady progress on our journey from explorer–developer to developer–producer at the Keno Hill Silver District (“Keno Hill”). We completed more than 1,000 meters (“m”) of underground development to access and explore our two main ore deposits – Birmingham and Flame & Moth – while also completing a +15,000 m detailed surface and underground exploration program, the result of which has been a doubling of our high grade silver resources to more than 33 million (“M”) ounces of indicated silver at our important Birmingham discovery. Further, we have seen a significant expansion of our environmental business (AEG) to more than \$20 million annual revenue in 2018. But despite these significant accomplishments, we remain acutely aware of the headwinds in the precious metals sector as we move cautiously but deliberately forward to put our high-grade silver deposits at Keno Hill into production.

Our business strategy is simple, we have designed a low-capital, high-return, very high-grade silver production plan for Keno Hill that is economic in today’s \$15 per ounce silver market, while preserving the opportunity for future expansion of our mine operations as market conditions change. As an integrated part of our overall strategy, we are also looking closely at our much-expanded environmental business, reviewing strategic opportunities to further expand margins and maximize returns for our shareholders.

### **2018 DEVELOPMENTS**

As promised in 2017, our aim in 2018 was to steadily move Keno Hill toward a production decision through a combination of infrastructure and permitting work, a large exploration effort including underground exploration at Birmingham, and completion of a pre-feasibility study (“PFS”) to demonstrate the value and optionality of Keno Hill. At this point, these objectives have been achieved and we are on a clear path towards production.

Getting to this point in 2018 was not cheap, we invested more than \$10 M in Keno Hill, but achieved the following accomplishments:

- ✓ Expansion of the Birmingham mineral resource estimate from 17.3 M ounces to 33 M ounces of contained silver at an average silver grade of 628 grams per tonne (“g/t”), and inferred mineral resources from 5.4 M ounces to 11.4 M ounces of contained silver at an average silver grade of 526 g/t

### **2019 Pre-Feasibility Study Results<sup>(1)</sup>**

- ✓ 1.18 M tonnes of ore at 804 g/t Ag. 8-year mine-life
- ✓ Annualized Ag in concentrate 4.0 Moz
- ✓ Average throughput 430 tpd
- ✓ Initial capital costs of \$23.2 M comprising
  - \$17.9 M mine development, PP&E
  - \$5.3 M working capital
- ✓ Average LOM NSR \$554/t of ore
- ✓ Direct operating costs of \$321/t of ore
- ✓ LOM AISC Ag of US\$10.86/oz
- ✓ Pre-tax NPV<sub>5</sub> \$136.4 M
- ✓ After-tax NPV<sub>5</sub> \$101.3 M
- ✓ Pre-tax IRR 84%
- ✓ After-tax IRR 74%
- ✓ Project de-risked

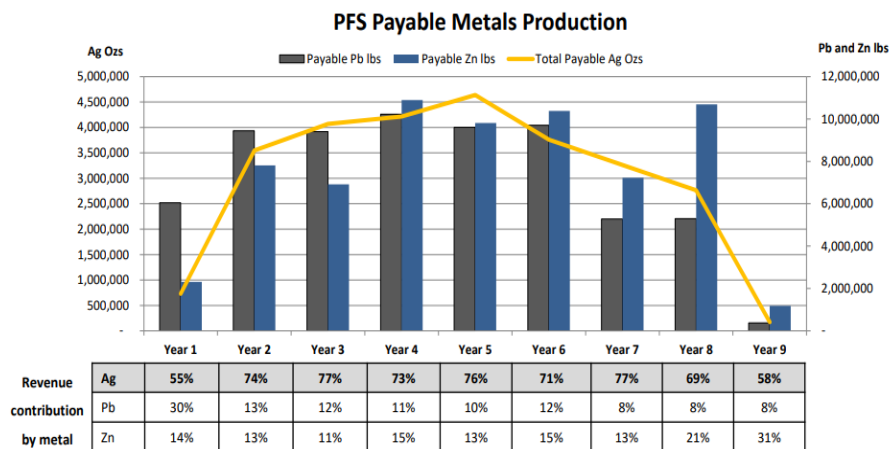
<sup>(1)</sup> Refer to news release dated March 28, 2019 entitled “Alexco Announces Pre-Feasibility Study for Expanded Silver Production at Keno Hill Silver District”

- ✓ Completion of 550 m of the Birmingham advanced exploration decline, followed by a 4,230 m underground exploration drill program from the decline
- ✓ Completion of more than 452 m of underground development at Flame & Moth to access the initial production levels of this deposit
- ✓ Completion of a 15,314 m surface exploration drilling program focused on identifying new target areas as well as continuing to expand the Birmingham deposit
- ✓ Completion of a \$9 M flow-through financing to fund our exploration and development programs, securing a US\$15 M credit facility with Sprott Private Resource Lending, and freeing up \$3.9 M of cash by replacing cash security posted for Keno Hill with a surety bond
- ✓ Our environmental subsidiary business, AEG, had a record year generating revenues of \$20 M and gross profit of \$6 M along with the acquisition of Saskatoon-based Contango Strategies Ltd.
- ✓ The UKHM Reclamation Plan was approved by the Government of Canada to enter into Yukon's environmental assessment process (under YESAA) with the support of all project parties
- ✓ We strengthened our Board of Directors with the appointment of Karen McMaster, a professional with an extensive legal background and experience in the mining industry, with a primary focus on environmental matters as well as exploration and mine development

### **KENO HILL PROGRESSION**

We published the positive results of the PFS for expanded silver production from Keno Hill in March of this year, reflecting a robust high-margin, high-grade primary silver operation that will produce an average of approximately 4 M ounces of silver per year. The PFS demonstrates considerable

improvement from the 2017 Preliminary Economic Assessment in nearly all categories including a higher net present value, increased annual silver production, reduced pre-production and working capital requirements, improved operating costs and productivities, increased mine tonnage and throughput, lower life-of-mine all-in sustaining costs, and an impressive internal rate of return. But more importantly, the PFS shows that even in today's pricing environment, Keno Hill is economic and retains both scalability and optionality, opportunities that we will further evaluate as we move forward.



## 2019 - NEXT STEPS

<b>Exploration</b>	<ul style="list-style-type: none"><li>• Mobilize 2019 exploration team</li><li>• Complete ~7,500 meters of drilling, Bermingham focus</li></ul>
<b>Initiate Surface Construction Projects</b>	<ul style="list-style-type: none"><li>• Complete mill upgrade</li><li>• Complete surface facilities at Bermingham</li></ul>
<b>Permitting</b>	<ul style="list-style-type: none"><li>• Obtain Bermingham WUL renewal expected in Q3 2019</li></ul>
<b>Construction</b>	<ul style="list-style-type: none"><li>• Review options and settle on development strategy for commercial production</li></ul>
<b>Optimization</b>	<ul style="list-style-type: none"><li>• Launch optimization &amp; <u>scaleability</u> study coincident with project start-up</li></ul>

With the technical review work to restart the mine essentially complete and the project largely de-risked, in early 2019 we are turning our focus to mill modifications and other surface infrastructure construction while we wait for final review and timing of the Water Use Licence (“WUL”) renewal by the Yukon Water Board. Due to the continued backlog and deteriorating timelines at the Yukon Water Board, we have decided not to commence underground work for ore production until we have

confidence in the timing of the amended WUL. We expect to receive the amended WUL in Q3 2019, which would allow us to restart production at Keno Hill by the end of 2019 or Q1 2020. In the meantime, we plan to complete approximately 7,500 m of surface exploration drilling at Bermingham and other targets around the property.

I want to acknowledge and thank our employees, contractors and our board of directors for their tireless dedication to our company. We have an outstanding group of experienced professionals who continue to be the backbone of Alexco and have achieved remarkable milestones including nearly 6.5 years without a single lost-time accident and the H.H. Huestis Award for Excellence in Prospecting and Mineral Exploration that Al McOnie, Seymour Iles, and Jared Chipman received from AMEBC in January 2019. I am honoured to work alongside such a talented group of people.

In closing, I thank our shareholders and followers for their continued support and confidence in our ability to generate long-term value. I look forward to updating you on our progress as we become Canada’s only primary silver producer.

Sincerely,

*/s/ Clynton R. Nauman*

---

Chairman & Chief Executive Officer  
Alexco Resource Corp.