



ALEXCO

**ANNUAL FINANCIAL REPORT
DECEMBER 31, 2015**

ALEXCO RESOURCE CORP.

Building a Sustainable Future In Silver

This Management's Discussion and Analysis ("MD&A") of Alexco Resource Corp. ("Alexco" or the "Corporation") is dated March 23, 2016 and provides an analysis of Alexco's consolidated financial results for the year ended December 31, 2015 compared to those of the previous year.

The following information should be read in conjunction with the Corporation's December 31, 2015 consolidated financial statements with accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All dollar figures are expressed in Canadian dollars unless otherwise stated. These documents and additional information on the Corporation, including Alexco's Annual Information Form ("AIF"), are available on the Corporation's website at www.alexcoresource.com and on the SEDAR website at www.sedar.com.

Except where specifically indicated otherwise, the disclosure in this MD&A of scientific and technical information regarding exploration projects on Alexco's mineral properties has been reviewed and approved by Alan McOnie, FAusIMM, Vice President, Exploration, while that regarding mine development and operations has been reviewed and approved by Scott Smith, P.Eng., former Bellekeno Mine Manager, both of whom are Qualified Persons as defined by National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101").

2015 HIGHLIGHTS AND OVERALL PERFORMANCE

- Overall, Alexco reported a net loss of \$5,509,000 for the year ended December 31, 2015, for a basic and diluted loss of \$0.08 per share, on total revenues of \$14,662,000. The loss before recovery of taxes for 2015 was \$6,616,000, including non-cash costs of \$2,246,000 for depreciation and amortization, \$645,000 for share-based compensation and write-off of receivables totalling \$643,000. For the year ended December 31, 2014, Alexco reported a net loss of \$32,772,000, for a basic and diluted loss of \$0.50 per share, on total revenues of \$15,286,000. The 2014 loss before recovery of taxes was \$35,608,000 including non-cash costs of \$2,949,000 for depreciation and amortization, and \$1,038,000 for share-based compensation. The difference between the net loss in 2015 and 2014 is mainly due to the 2014 impairment charges to mining assets totalling \$29,931,000. General and administrative expenses and site based costs have decreased by \$771,000 from 2015 compared to 2014 as the company has focused on further utilizing efficiencies with existing resources and reducing costs.
- The Corporation's cash and cash equivalents at December 31, 2015 totaled \$8,163,000 compared to \$8,639,000 at December 31, 2014, while net working capital totaled \$12,216,000 compared to \$10,434,000 for the comparable year. During the third quarter of 2015 \$4,090,000 of restricted cash relating to the Globeville security was reclassified from non-current to current assets. The cash position had a decrease of \$476,000 compared to December 31, 2014 primarily due to expenditures attributed to the previously disclosed 2015 exploration drill program at the Birmingham prospect in the Keno Hill Silver District, working capital requirements for the Gold King Mine Interim Water Treatment Plant Project in Colorado, care and maintenance costs at Keno Hill and general and administration expenditures including the foreign exchange impact related to US denominated administrative costs.
- Alexco Environmental Group ("AEG"), recognized revenues of \$14,662,000 in 2015 for a gross profit of \$3,251,000 and a gross margin of 22.2% compared to revenues of \$14,925,000 in 2014 for a gross profit of \$4,888,000 and a gross margin of 32.8%. The decrease in gross margin from the prior period is mainly due to one of AEG's major projects, Globeville Smelter Project, completing active remediation and phasing to monitoring status with lower revenue and profits. Furthermore, the nature of specialized engineering design related to the Keno Hill Reclamation

Plan required AEG to outsource a significant portion of work to third party contractors during 2015.

- On December 8, 2015 the Company closed a \$3 million equity financing, on a bought deal basis, for 5,662,500 flow-through shares at a price of \$0.53 per share and concurrently closed a non-brokered equity financing of 2 million shares at a price of \$0.48 for total gross proceeds of \$4 million.
- Alexco completed a surface exploration drill program of 2,595 meters focused on extension and expansion of the previously identified Birmingham resource at Keno Hill. Significant true width intercepts from the program included 4.98 meters grading 7,462 grams per tonne ("g/t") (239.9 ounces per tonne ("oz/t")) silver, 4.76 meters grading 2,357 g/t (75.8 oz/t) silver, 2.35 meters of 3,774 g/t (121.3 oz/t) silver and ranging down to 1.81 meters grading 794 g/t (25.5 oz/t) silver were returned from drill holes in the 2015 program.
- AEG completed the design, construction and commissioning of a 900 gallon per minute Interim Water Treatment Plant ("IWTP") for the US Environmental Protection Agency at the Gold King Mine near Silverton, Colorado. AEG is currently operating the plant.

SELECTED ANNUAL INFORMATION

(expressed in thousands of dollars, except per share amounts)	As at and for the year ended December 31		
	2015	2014	2013
Revenue from mining operations	-	361	43,114
Gross profit (loss) from mining operations	-	361	(29)
Revenue from environmental services	14,662	14,925	16,319
Gross profit from environmental services	3,251	4,888	8,849
Revenue from all operations	14,662	15,286	59,433
Gross profit from all operations	3,251	5,249	8,820
Net income (loss)	(5,509)	(32,772)	(50,450)
Adjusted net income (loss) ¹	(5,509)	(5,363)	(4,313)
Earnings (loss) per share –			
Basic	(\$0.08)	(\$0.50)	(\$0.81)
Diluted	(\$0.08)	(\$0.50)	(\$0.81)
Total assets	102,542	105,195	131,213
Total long-term liabilities	24,496	24,363	26,114
Dividends declared	Nil	Nil	Nil

¹ Adjusted net loss excludes amounts recorded with respect to impairment charges, and is a non-IFRS measure with no standardized meaning prescribed under IFRS. See page "Non-IFRS Measures – Adjusted Loss" on page 16.

OVERVIEW OF THE BUSINESS

Alexco owns substantially all of the historic Keno Hill Silver District ("KHSD"), located in Canada's Yukon Territory. The Bellekeno silver mine, one of the world's highest-grade silver mines with a production grade averaging 779 g/t, commenced commercial production at the beginning of 2011 and was Canada's only operating primary silver mine from 2011 to 2013, producing a total of 5.6 million ounces of silver during that time. In September 2013 Alexco suspended Bellekeno mining operations in light of a sharply reduced silver price environment. Since the suspension Alexco has focused on evaluating the Flame & Moth deposit, renegotiating third party contracts and reviewing other opportunities to reduce future All-In

Sustaining Costs, with the aim of repositioning the District for long-term, sustainable operations. Alexco is developing a plan to return to operations incorporating production from the Bellekeno, Flame & Moth and Lucky Queen silver deposits.

Employing a unique business model, Alexco also owns and operates an environmental consulting business, AEG, which provides a variety of mine and industrial related environmental services, including management of the regulatory and environmental permitting process, remediation technologies and reclamation and mine closure services. AEG provides these services to both government and industry clients through its wholly owned subsidiaries, Alexco Environmental Group Inc. (formerly Access Mining Consultants Ltd.), Alexco Environmental Group (US) Inc. ("AEG US") (formerly Alexco Resource U.S. Corp.) and Elsa Reclamation & Development Company Ltd. ("ERDC"). Alexco also owns certain patent rights allowed and pending related to mine reclamation and closure processes including the in situ immobilization of metals in groundwater, soils, waste stacks and pit lakes.

Alexco is a public company which is listed on the Toronto Stock Exchange (under the symbol AXR) and the NYSE MKT Equities Exchange (under the symbol AXU).

OUTLOOK AND STRATEGY

Keno Hill Silver District

Alexco's current primary focus is on further building high grade resources in the KHSD as well as further refining plans to optimize operations and the future underlying fixed cost structure of the Keno Hill District mining operations with the goal of re-starting mining operations, commodity prices and markets considered. Ore throughput, grade and the influence of the Silver Wheaton silver stream have a material impact on unit costs at Keno Hill. Bringing the Flame & Moth deposit into production is a key aspect of restarting operations at Keno Hill, and the permitting process for development of the Flame & Moth deposit is progressing through the final phases of the Water Use Licence processes. Similarly, the recent discovery of very high grade mineralization at Bermingham may further influence the ultimate plan for redevelopment of the KHSD.

Alexco's various Keno Hill mineral properties comprise mineral rights spanning approximately 244 square kilometers, which contain numerous occurrences of mineral deposits and prospects including more than 35 historical silver mines. The KHSD's historical mines produced from approximately 1913 through 1989, with the Yukon Government's published Minfile database reporting that District production from 1941 totaled more than 214 million ounces of silver with average grades of 44 oz/t silver, 6.7% lead and 4.1% zinc. All of Alexco's mining, development and exploration activities have been conducted on its KHSD properties. The KHSD is located in the Yukon Territory approximately 330 kilometers north of Whitehorse in the vicinity of the villages of Mayo and Keno City and lies within the traditional territory of the First Nation of Na-Cho Nyak Dun ("FNNND"). Alexco is party to a Comprehensive Cooperation and Benefits Agreement with the FNNND, setting out common understandings, obligations and opportunities arising from all of Alexco's activities within the Keno Hill District including exploration, care and maintenance, District closure activities and mine production.

The Corporation's Bellekeno underground mine commenced commercial production in January 2011. Bellekeno mining and milling operations were suspended in early September 2013 as a consequence of the reduced silver price environment and operating cost pressures, and the last concentrate shipments were delivered to the smelter in October 2013 with final assay determinations and final settlements of concentrate sales completed as of April 2014.

In December 2014, Alexco completed the KHSD Preliminary Economic Assessment ("PEA"). Alexco's KHSD property encompasses the Bellekeno, Flame & Moth, Lucky Queen, Onek and Bermingham

deposits and comprises 725 surveyed quartz mining leases and 869 unsurveyed quartz mining claims, the majority of which were UKHM Mineral Rights. Prior to their amalgamation within KHSD, each of the deposits were a separate property and had been subject to numerous technical reports, all filed on the SEDAR website at www.sedar.com and all NI 43-101 compliant. All of these past technical reports have now been superseded by the current PEA. For details of the PEA, please refer to Alexco's MD&A for the year ended December 31, 2014.

Alexco Environmental Group

Alexco remains committed to the on-going environmental care and maintenance program and reclamation and closure projects at Keno Hill under its contract through ERDC with the Government of Canada ("Canada") and in accordance with the Amended and Restated Subsidiary Agreement ("ARSA"), and continues to service its private sector client base in the Yukon, Colorado and elsewhere. AEG intends to continue expanding its environmental services activities, throughout Canada and the United States. AEG has developed a strong client base within the mining industry in the last several years, and has also been able to establish new lines of business related to industrial site soil remediation, water treatment and historical mine pool remediation as well as emergency water treatment services.

Keno Hill – Amended and Restated Subsidiary Agreement

As part of Alexco's acquisition in 2006 of the UKHM mineral rights in the Keno Hill District, ERDC is party to the ARSA with Canada. Under the ARSA, ERDC is retained by Canada as a paid contractor responsible on a continuing basis for the environmental care and maintenance and ultimate closure reclamation of the former UKHM mineral properties. The ARSA provides that ERDC share the responsibility for the development of the ultimate closure plan with Canada. Upon regulatory approval, the closure plan will be implemented by ERDC. During the period required to develop the plan and until the closure plan is executed, ERDC is also responsible for carrying out the environmental care and maintenance at various sites within the UKHM mineral rights, for a fixed annual fee established on a per-site basis totaling \$850,000, adjustable for material changes in scope. ERDC receives agreed-to commercial contractor rates when retained by Canada to provide environmental services in the Keno Hill District outside the scope of care and maintenance and closure and reclamation planning under the ARSA.

ERDC currently holds a Type B Water Use Licence under the Yukon Waters Act to undertake care and maintenance activities, which licence term continues until January 29, 2018. The Existing State of Mine ("ESM") Reclamation Plan at Keno Hill will ultimately undergo assessment by the Yukon Environmental and Socio-economic Assessment Board (YESAB). Subsequent to completion of the YESAB assessment process, a Water Use Licence renewal will be required from the Yukon Water Board to licence aspects of the plan that affect use of water and placement of waste. After licencing, funding approval from AANDC for the project will be subject to review and acceptance of the project by the Treasury Board of Canada. The ESM Reclamation Plan is subject to amendment that may result from requirements during the assessment, licencing, and funding approval processes.

Globeville Smelter Project

At the Globeville Smelter Project located in Denver Colorado, AEG designed, built and operated a replacement water treatment plant (the "Site") to enable demolition of the existing smelter. AEG provided financial assurance mechanisms for the property cleanup and redevelopment, conducted all environmental remediation for soil and legacy groundwater, including 500,000 cubic yards of hazardous waste soil, stabilized arsenic-trioxide containing smelter flues and other principal threat materials, and implemented in-situ groundwater technology (patented by Alexco) that successfully immobilized arsenic, cadmium, selenium and zinc to protect Segment 15 of the South Platte River from non-point source seepage to the river from the Site.

In June 2015 AEG received a finding of No Further Active Remediation ("NFAR") required at the Site from the State of Colorado Department of Public Health and Environment, and announced on the Federal

Register in December 2014 a final deletion of the Site from the National Priorities List by the United States Environmental Protection Agency (“EPA”). From that point onwards, the only remaining tasks to complete are the monitoring of five wells for 36 months (June 2018), and preparation of the Completion Report for the State of Colorado to document the remediation work that was done. Once the monitoring period is completed (Demonstration of Remedial Functionality period) then the Site will receive a final finding of No Further Action (“NFA”) from the State of Colorado.

AEG drafted a Completion Report in 2016-Q1 which outlines all work completed at the site and estimates the financial cost of monitoring, and the estimated cost to implement any adaptive management plans to address excursions if any, in the environmental stability of the site over the next 10 calendar quarters. Pursuant to the adaptive management steps that were approved in the NFAR Petition that was approved by the State in June 2015, AEG has identified excess security in the escrow account. AEG plans to submit a final Completion Report in 2016-Q2 that will support the release of a portion of the restricted cash to reduce the amount held in escrow, from the current security balance of \$4.54 million (US\$3.30 million) to a lesser amount. Management classified \$4.09 million as a current asset, as it anticipates the release of these funds in the next several months.

Economic Climate

Silver, lead and zinc are the primary metals found in the Bellekeno resource in particular and within the Keno Hill District historically. With respect to the economic climate during 2015, prices were largely range-bound. Silver traded from a high of US\$18.23 on January 23, 2015 to a low of \$13.71 on December 14, 2015, while lead traded between US\$0.98 to US\$0.72 and zinc traded between US\$1.09 to US\$0.67 per pound. As at the date of this MD&A, prices are approximately US\$15.25 per ounce silver, US\$0.80 per pound for lead and US\$0.84 per pound for zinc and the Canadian-US exchange rate is approximately US\$0.76 per CAD. Consensus investment analyst forecasts over the next two years for silver average approximately US\$15.50 per ounce, for lead average approximately US\$0.83 per pound, and for zinc US\$0.85 per pound, with the Canadian-US exchange rate forecast at US\$0.75 per CAD (see “Risk Factors” in the MD&A for the for the year ended December 31, 2015, including but not limited to “Potential Profitability Of Mineral Properties Depends Upon Other Factors Beyond the Control of the Corporation” and “General Economic Conditions May Adversely Affect the Corporation’s Growth and Profitability” thereunder).

RESULTS OF OPERATIONS

Alexco Environmental Group (AEG)

AEG Highlights during 2015:

- AEG recognized revenues of \$14,662,000 in the year ended December 31, 2015 for a gross profit of \$3,251,000 and a gross margin of 22.2% compared to revenues of \$14,925,000 for a gross profit of \$4,888,000 and a gross margin of 32.8% in the year ended of 2014. The decrease in gross margin from the prior year is mainly due to one of AEG’s major projects, Globeville Smelter Project, completing active remediation and phasing to monitoring status with lower revenue and profits. Furthermore, the nature of specialized engineering design related to the Keno Hill Reclamation Plan required AEG to outsource a significant portion of work to third party contractors during 2015.
- AEG achieved a significant milestone in June 2015 when AEG, working for Globeville I, LLC, received from the State of Colorado Department of Public Health and Environment, a finding of No Further Active Remediation required at the Denver Colorado Globeville Smelter Project, and announced on the Federal Register in December 2014 a final deletion of the Site from the National Priorities List (NPL or Superfund) by the United States EPA. AEG currently has a balance of US\$3.30 million posted as security on the Globeville Project, and will be formally

requesting release of a substantial portion of the security, once the Completion Report is accepted, which is expected to occur in 2016-Q2.

- AEG, through an Alexco subsidiary, ERDC, is working closely with Canada on the ESM Reclamation Plan at Keno Hill. The ESM Reclamation Plan specifically addresses legacy environmental liabilities at the KHSD. Following several years of planning work, the draft ESM Reclamation Plan was submitted in 2015-Q1 and was reviewed by Indigenous and Aboriginal Affairs Canada (“INAC”) and their independent Peer Review Panel (“IPRP”) for the remainder of 2015. ERDC will continue in the planning phase towards the submission of a completed plan for environmental assessment under the Yukon Environmental and Socio-economic Assessment Act (“YESAA”) and other authorizations required to start active reclamation work, which is expected to commence in 2019.
- In September 2015 AEG was selected by the EPA as the interim water treatment contractor to design, construct and automate an Interim Water Treatment Plant (“IWTP”) at the Gold King Mine near Silverton, Colorado. The project commenced on October 1, 2015 and on October 20, 2015 the Company announced that it completed the construction and initiated operation of a 900 gpm (with peak flows to 1,200 gpm) interim water treatment facility. AEG’s water treatment plant design was selected due to AEG’s proven capability to address water treatment residuals (sludge) during cold weather operations with an automated plant-wide control system, enabling 24-hour operation at low cost and high reliability. AEG completed the design and construction of the treatment system within a required three week period, and is currently operating the IWTP and continuing to optimize and further winterize the IWTP in anticipation of continuing harsh conditions and enhanced freshet conditions expected at 10,500 feet in the San Juan Mountains of southern Colorado.
- With the Globeville Smelter Project clean-up coming to an end, AEG has increased its business development and recruiting efforts for bringing on more project related work. In addition, AEG has added specific professional positions to begin to reduce reliance on third party contractors.

Keno Hill Silver District

2016 Exploration Program

The Company has planned an exploration program of at least 8,000 meters of surface diamond drilling to follow up on the successful 2015 and 2014 high grade silver results at the Birmingham deposit. The exploration program is budgeted to cost \$3 million and is fully funded by way of the \$3 million of flow through funds that were raised in December 2015. The surface drilling program is expected to run between June and September 2016 with results expected to be released as received but no later than the fourth quarter of 2016.

The Birmingham mineralized system remains open over 600 meters to the northeast where potential linkage to the Hector-Calumet mine remains to be resolved, and also to the southwest where there remains a kilometer of prospective ground between the Birmingham prospect and the historic Coral Wigwam prospect. The preliminary drill plan is for a minimum of sixteen holes to explore the immediate up and down dip extensions of the newly discovered high grade shoot and for a number of holes to provide infill drilling that would provide suitable drill density to allow resource estimation for the zone. In addition, appropriate geotechnical, hydrological and metallurgical data will be collected to better understand the attributes of this very high grade zone.

2015 Exploration Program

Alexco completed a surface exploration drill program of 2,595 meters focused on extension and expansion of the previously identified Birmingham resource. Significant true width intercepts included

4.98 meters grading 7,462 g/t (239.9 oz/t) silver, 4.76 meters grading 2,357 g/t (75.8 oz/t) silver, 2.35 meters of 3,774 g/t (121.3 oz/t) silver and ranging down to 1.81 meters grading 794 g/t (25.5 oz/t) silver were returned from drill holes in the 2015 program (see news release dated September 17, 2015 entitled "Alexco Drills 5 meters (True Width) of 7,462 grams per tonne Silver (240 ounces per tonne) at Bermingham, Along with Other Significant Silver Intercepts").

Together with the high grade discovery intercept from the 2014 drill program (6.39 meters grading 5,667 g/t (182.2 oz/t)) silver, the 2015 drilling has identified a high grade silver and gold bearing zone over at least 140 meters down-plunge across a strike length of approximately 40 meters. The zone averages 3.7 meters true thickness, is locally more than 5.5 meters thick and remains open both up dip and down dip.

This high grade zone lies approximately 50 meters to the northeast of the existing Arctic Zone Resource in a position controlled by flexure in the vein-fault structure that is stratigraphically above the inferred unique stratigraphic and structural setting occupied by the adjacent Hector-Calumet mine (see news release dated November 5, 2014, entitled "Alexco Drills Best Hole Ever: Intersects 5,667 Grams Per Tonne Silver Over 6.39 Meters (true width) at Bermingham; Mineralization Extended and Remains Open"). Further exploration, specifically to follow the high grade mineralization both down plunge toward more highly silicified stratigraphy, as well as up dip at least 200 meters into untested areas, is warranted. In terms of mineralogy, the high grade mineralized zone is characterized by the presence of the silver bearing mineral pyrrargyrite in association with argentiferous galena, tetrahedrite freibergite and wire silver in a dominantly sideritic gangue.

Overall, the Bermingham mineralized system remains open in all directions, especially to the northeast where potential linkage to the Hector-Calumet mine remains to be resolved, but also to the southwest where there remains a kilometer of untested ground between the Bermingham prospect and the historical Coral Wigwam prospect.

Bermingham Vein Drill Composite Assay Interval Highlights:

- K-15-0580 : intercepted 4.98 meters true width from 305.46 meters with a composite assay value of 7,462 g/t (239.9 oz/t) silver, including 3.65 meters true width from 306.89 meters with a composite assay of 10,186 g/t (327.5 oz/t) silver.
- K-15-0582 : intercepted 4.76 meters true width from 303.16 meters with a composite assay value of 2,357 g/t (75.8 oz/t) silver, that included 4.17 meters true width from 303.16 meters with a composite assay value of 2,686 g/t (86.4 oz/t) silver.
- K-15-0583 : intercepted 2.35 meters true width from 346.25 meters with a composite assay value of 3,774 g/t (121.3 oz/t) silver, that included 1.46 meters true width from 346.25 meters with a composite assay value of 6,049 g/t (194.5 oz/t) silver.
- K-15-0576 : intercepted 2.60 meters true width from 243.42 meters with a composite assay value of 1,129 g/t (36.3 oz/t) silver, that included 1.99 meters true width from 243.42 meters with a composite assay value of 1,471 g/t (47.3 oz/t) silver.
- K-15-0577 : intercepted 1.81 meters true width from 272.00 meters with a composite assay value of 794 g/t (25.5 oz/t) silver, that included a 0.79 meter true width from 273.41 meters with a composite assay value of 1,827 g/t (58.7 oz/t) silver.

Mineral Resource Estimate

On April 30, 2015 Alexco announced an updated mineral resource estimates for the Flame & Moth and Bermingham deposits. With an effective date of April 28, 2015 the Flame & Moth mineral resource is estimated at 1,638,000 tonnes indicated grading 506 g/t silver, 1.89% lead and 5.40% zinc and 0.43 g/t

gold plus another 348,000 tonnes inferred grading 366 g/t silver, 0.47% lead, 4.37% zinc and 0.26 g/t gold. With an effective date of April 28, 2015 the Bermingham mineral resource was estimated at 377,000 tonnes indicated grading 430 g/t per tonne silver, 1.59% lead and 1.74% zinc plus another 52,000 tonnes inferred grading 477 g/t silver, 1.22% lead and 1.88% zinc. The drill results from the 2015 surface exploration drill program are not included in this mineral resource update.

The Company plans to provide an updated mineral resource estimate for the Bermingham deposit in the fourth quarter of 2016.

Engineering Update

During 2015 Alexco continued to work on re-engineering and optimizing the mine plan for Flame and Moth and Lucky Queen, incorporating the expanded mineral resource from April 30, 2015. Mine plans will be updated and optimized based on geotechnical information and the Flame and Moth and Lucky Queen economic model will be revised using current consensus pricing and updated estimated costing. Once results from this work are compiled, the study will move to develop an optimized multi mine model which should be complete early in the second quarter of 2016.

Incorporating the re-engineering and optimizing of the mine plan along with an updated mineral resource estimate on Bermingham, the Company plans to provide an updated PEA in the fourth quarter of 2016.

Permitting Update

On February 17, 2016 the Company was granted the amended Quartz Mining License ("QML") for the Flame & Moth deposit. The QML allows development of the Flame and Moth deposit. The only remaining permit required to commence mining operations at the Flame & Moth deposit is the Water Use Licence ("WUL") which is granted through the Yukon Water Board. This process is well underway and the Company expects a Water Licence amendment hearing to occur in the second quarter of 2016.

As part of the QML amendment application, the Company filed an updated Reclamation and Closure Plan for its current operations and the future development of the Flame & Moth deposit. This review is required every two years. As a result, the QML requires that Alexco increase its posted financial security from \$4.2 million to \$6.3 million. The \$4.2 million currently posted is included in the Corporation's non-current restricted cash and deposits. The Yukon Mine Site Reclamation and Closure Policy Financial Guidelines provide several forms of acceptable security, which includes pledging assets, bank letters of credit, surety bonds and insurance.

Mine Site Care and Maintenance

Mine site care and maintenance costs related to the Bellekeno underground mine during for the year ended December 31, 2015 totaled \$2,351,000 compared to \$3,130,000 for 2014. The decrease in costs is due to a lesser depreciation charge in 2015 which is a direct result of the impairment charge recorded in 2014. Included in mine site care and maintenance costs is depreciation expense of \$1,746,000 in 2015 and \$2,486,000 in 2014.

Corporate

General, Administrative and Corporate

General and administrative expenses on a consolidated basis (includes Alexco and AEG) during the year ended December 31, 2015 totaled \$8,474,000 compared to \$8,466,000 for 2014. General and administrative expenses were similar in both periods with the difference mainly relating the company further lowering corporate salaries in 2015. This decrease in general and administrative expenses was offset, as the Company evaluated certain trade receivables and certain receivables related to an

employee tax equalization program and wrote-off a total of \$643,000 in 2015. As well, the foreign exchange impact on US salaries in 2015 offset the cost reductions made by the company in the year.

FOURTH QUARTER

For the quarter ended December 31, 2015 Alexco reported a net loss of \$1,502,000 on total revenues of \$4,128,000 compared to a net loss of \$29,025,000 on total revenues of \$3,778,000 for the same period in 2014. The difference between the 2015 period and 2014 period is mainly due to the impairment charge of mining assets totaling \$29,931,000 that the company recorded in 2014. The Gold King Mine Interim Water Treatment Plant Project, an AEG project in Colorado increased the fourth quarter revenue in 2015.

AEG recognized revenues of \$4,128,000 in the fourth quarter of 2015 for a gross profit of \$611,000 and a gross margin of 14.8% compared to revenues of \$4,139,000 in the fourth quarter of 2014 for a gross profit of \$1,260,000 and a gross margin of 30.4%. The decrease in gross margin compared to the prior period is mainly due to one of AEG's major projects, Globeville Smelter Project, completing active remediation and phasing to monitoring status with lower revenue and profits.

Mine site care and maintenance costs in the fourth quarter of 2015 totaled \$599,000 compared to \$831,000 in the fourth quarter of 2014. The decrease in costs is due to a lesser depreciation charge in the second quarter of 2015 which is a direct result of the impairment charge recorded on property, plant and equipment in the fourth quarter 2014. Included in mine site care and maintenance costs is depreciation expense of \$431,000 in the 2015 period and \$625,000 in the 2014 period.

General and administrative expenses in the fourth quarter of 2015 totaled \$1,911,000 compared to \$1,993,000 in the same period of 2014. General and administrative expenses decreased in the fourth quarter of 2015 compared to the fourth quarter of 2014, mainly due to reduction in general and administrative salaries and share-based compensation.

SUMMARY OF QUARTERLY RESULTS

Key financial information for the most recent eight quarters is summarized as follows, reported in thousands of Canadian dollars except for per share amounts:

Period	Revenue	Gross Profit	Net Loss	Basic Loss per Share	Diluted Loss per Share	Expenditures on Mineral Properties
2014-Q1	3,327	1,237	(1,419)	\$(0.02)	\$(0.02)	546
2014-Q2	3,169	917	(1,661)	\$(0.03)	\$(0.03)	2,434
2014-Q3	4,651	1,835	(667)	\$(0.01)	\$(0.01)	2,670
2014-Q4	4,139	1,260	(29,025)	\$(0.44)	\$(0.44)	1,378
2014 Total	15,286	5,249	(32,772)	\$(0.50)	\$(0.50)	7,028
2015-Q1	4,516	1,192	(492)	\$(0.01)	\$(0.01)	303
2015-Q2	2,610	579	(1,866)	\$(0.03)	\$(0.03)	756
2015-Q3	3,408	869	(1,649)	\$(0.02)	\$(0.02)	865
2015-Q4	4,128	611	(1,502)	\$(0.02)	\$(0.02)	787
2015 Total YTD	14,662	3,251	(5,509)	\$(0.08)	\$(0.08)	2,711

Note: Sum of all the quarters may not add up to the yearly totals due to rounding

The net loss of 2014-Q4 reflects the impact of impairment charges recorded in respect of the Keno Hill district mining assets and exploration and evaluation assets. The net losses of 2015 reflect the general and administrative expenses partially offset by AEG profits.

The expenditures on mineral properties incurred in 2014 reflect a drill program primarily at the Birmingham and Flame and Moth deposits. The 2015-Q4 mineral property expenditures reflect the

ongoing costs of modeling, data logging and resource estimation work for Bermingham and the Flame and Moth deposits. The 2015 mineral property expenditures reflect the 2015 drill program at Bermingham and the re-engineering work being done on the Flame and Moth deposit.

Liquidity, Cash Flows and Capital Resources

Liquidity

At December 31, 2015, the Corporation had cash and cash equivalents of \$8,163,000, and net working capital of \$12,216,000 compared to cash and cash equivalents of \$8,639,000 and net working capital of \$10,434,000 at December 31, 2014. The Corporation faces no known liquidity issues in any of its financial assets.

With its cash resources and net working capital on hand at December 31, 2015, and assuming no re-start of mining operations, Alexco anticipates it will have sufficient capital resources to carry out all of its currently anticipated exploration and development programs, and service the working capital requirements of its mine site care and maintenance, exploration activities, environmental services business and corporate offices and administration, for at least the next 12 month period. As noted elsewhere in this MD&A, re-start of mining operations is dependent on a number of factors, including sustained improvements in silver markets and the effectiveness of cost structure reduction measures, and the uncertainties around the achievement of these factors are significant. Furthermore, a re-start of mining operations is likely to require additional capital investment, significantly in excess of the capital resources currently on hand. In addition, Alexco has the right, which expires December 31, 2016, to trigger the June 16, 2014 silver streaming agreement, which would have significant positive implications to Alexco, can only be triggered, by a payment of US\$20 million. Discussions to further address the Silver Wheaton silver streaming agreement are ongoing. Because of these factors, combined with its long term objectives for the exploration and development of its mineral properties, the Corporation is likely to require future additional funding.

Historically, Alexco's main sources of funding have been from mining operations, AEG and equity issuances, though all sources of finance reasonably available to it will be considered, including but not limited to issuance of new capital, issuance of new debt and the sale of assets in whole or in part, including mineral property interests. There can be no assurance of a re-start of mining operations or continued access to finance in the future, and an inability to generate or secure such funding may require the Corporation to substantially curtail and defer its planned exploration and development activities.

Cash Flows

	Three Months Ended December 31		Year Ended December 31,	
	2015	2014	2015	2014
Cash flow used in operating activities	\$ (825)	\$ 543	\$ (2,706)	\$ (723)
Cash flow used in investing activities	(576)	(2,408)	(1,385)	(6,427)
Cash flow provided by financing activities	3,615	(50)	3,615	7,179
	\$ 2,214	\$ (1,915)	\$ (476)	\$ 29

Cash used in operating activities was \$825,000 for the fourth quarter of 2015 versus cash inflow of \$543,000 for the fourth quarter of 2014. The majority of cash consumed on operating activities during fourth quarter of 2015 were expended on environmental services, site based operations and general and administrative costs. The increase in cash consumed in this quarter related to lower profits in AEG. Cash outflow from investing activities was \$576,000 for the fourth quarter of 2015 versus an outflow of

\$2,408,000 for the fourth quarter of 2014. The main difference for the decrease in cash outflow in the fourth quarter of 2015 was due to the decrease of expenditures on exploration drill programs. Cash inflow from financing activities was \$3,615,000 during the fourth quarter of 2015 which was the result of an equity financing deal and in the fourth quarter of 2014 there was a cash outflow of \$50,000 which was the result of an issuance cost from the equity financing deal completed earlier in that year.

Cash used in operating activities was \$2,706,000 for year ended December 31, 2015 versus \$723,000 for 2014, reflecting the impact of decreased profitability in AEG, site based operations and office overheads. Cash outflow in investing activities was \$1,385,000 for the year ended December 31, 2015 versus an outflow of \$6,427,000 for the same period of 2014. The main difference between periods is due to Alexco receiving US\$500,000 from the release of restricted funds associated with security at the Globeville Smelter Project which were redeployed to cover ongoing operations work at that project. In 2014, the company had a larger drill program and incurred more expenditures related to the drill program than in 2015. Cash inflow from financing activities during 2015 was \$3,615,000 and in 2014 there was a cash inflow of \$7,179,000 which were both the result of an equity financing deal.

Capital Resources

On October 2, 2008 (with subsequent amendments on October 20, 2008, December 10, 2008, December 22, 2009, March 31, 2010, January 15, 2013, March 11, 2014 and June 16, 2014), the Corporation entered into a silver streaming interest agreement (the "Silver Streaming Agreement") with Silver Wheaton under which Silver Wheaton will receive 25% of the life of mine silver produced by the Corporation from its Keno Hill Silver District properties. The Silver Streaming Agreement anticipated that the initial silver deliveries would come from the Bellekeno property. Under the Silver Streaming Agreement, the Corporation received up-front deposit payments from Silver Wheaton totaling US\$50 million, and received further payments of the lesser of US \$3.90 (increasing by 1% per annum after the third year of full production) and the prevailing market price for each ounce of payable silver delivered, if as and when delivered. After the initial 40 year term of the streaming interest, the Corporation is required to refund the balance of any advance payments received and not yet reduced through silver deliveries. The Corporation would also be required to refund the balance of advance payments received and not yet reduced if Silver Wheaton exercised its right to terminate the streaming interest in an event of default by the Corporation. As of September 2013, Bellekeno mining operations were suspended in light of a sharply reduced silver price environment.

On June 16, 2014, Alexco entered into an agreement with Silver Wheaton to amend the original Silver Streaming Agreement such that, upon payment of US\$20 million to Silver Wheaton on or before December 31, 2014 (the "Deadline"), the fixed US\$3.90 per ounce silver streaming production payment will be replaced with a variable production payment based on the spot price of silver. The variable production payment was defined by a pricing curve with an apex at US\$19.45 spot silver price where Silver Wheaton would make a production payment to Alexco of US\$18.00 per ounce of silver delivered; that payment decreasing by US\$0.91 per ounce for each US\$1.00 increase or decrease in silver price, returning to a fixed US\$3.90 per ounce for spot silver prices of US\$35.00 per ounce and higher. Upon payment of the US\$20 million to Silver Wheaton, the pricing amendment would be effective for a 10 year term from the time mining production re-commences in the district, with an option for Alexco to extend the amendment for another 5 or 10 years for an additional US\$10 million or US\$20 million, respectively.

The Deadline was initially extended until December 31, 2015 and Silver Wheaton subsequently confirmed that Alexco has the right, by written notice delivered at any time up to December 31, 2016, to extend the Deadline to December 31, 2016. If the Deadline is extended by Alexco and the US\$20 million payment is made to Silver Wheaton on or before the Deadline, the deposit owing under the original silver purchase agreement will be reduced from US\$50 million to US\$30 million and the deposit will be considered fully repaid.

Effective on signing the June 16, 2014 amending agreement, the date for completion of the 400 tonne per

day mine and mill completion test date was extended to December 31, 2017. If the Deadline is extended by Alexco and the US\$20 million payment is made to Silver Wheaton on or before the Deadline, the amendments provide that the deadline for this completion test would be further extended to 24 months following the recommencement date. In addition, pursuant to the June 16, 2014 amending agreement, the Silver Wheaton area of interest was expanded to include additional Alexco currently owned and future acquired properties within one kilometer of existing Alexco holdings in the Keno Hill District.

If Alexco decides to extend the June 16, 2014 amending agreement, it is not obligated to make the US\$20 million payment to Silver Wheaton. However, in order for certain of the amendments to take effect (including the amendment to the fixed price), the Corporation would need to make this payment. The Corporation would require additional financing to make this payment and there is no assurance that additional financing can be obtained by December 31, 2016 (or such later date as the parties may agree). If the Corporation is unable to, or chooses not to, make this US\$20 million payment, the fixed price payment terms of the original silver purchase agreement remain in effect and, to satisfy the completion test under the Silver Purchase Agreement, the Corporation will need to recommence operations on the KHSD Property and operate the mine and mill at 400 tonnes per day on or before December 31, 2017. If the completion test is not satisfied by December 31, 2017, the Corporation would be required to pay a capacity related refund to Silver Wheaton in the maximum amount of US\$9.75 million.

Effective December 8, 2015, the Corporation completed a bought deal financing and issued 5,662,500 flow-through common shares on a private placement basis at a price of \$0.53 per share for aggregate gross proceeds of \$3,001,125. Of the gross proceeds, \$2,627,000 has been attributed to issued common shares, and the remaining \$311,000 has been attributed to the sale of tax benefits. The underwriter to the financing received a cash fee of 6.5% of gross proceeds plus 368,063 compensation warrants, each warrant exercisable for one common share of the Corporation at an exercise price of \$0.53 per share at any time until December 8, 2017. Net proceeds from the issuance were \$2,713,000, after issuance costs comprised of the agent's commission of \$195,000, and other issuance costs of \$93,000. Concurrently, the Corporation issued 2,000,000 common shares on a private placement basis at a price of \$0.48 per share for aggregate gross proceeds of \$960,000. Net proceeds from the issuance were \$902,000, after issuance costs comprised of the agent's commission of \$57,600.

In August 2014, the Corporation completed a bought deal financing pursuant to a short form prospectus, issuing 7,015,000 units at a price of \$1.15 per unit for gross proceeds of \$8,067,000. Each unit was comprised of one common share and one half of one common share purchase warrant, each full warrant entitling the holder to acquire one additional common share at a price of \$1.40 for a period of two years after the closing date. The net cash proceeds from this financing were \$7,229,000, and were for further exploration and development activities on the KHSD property, particularly the Flame & Moth deposit, and for general working capital purposes.

The following table summarizes the current contractual obligations of the Corporation and associated payment requirements over the next five years and thereafter:

Contractual Obligations (expressed in thousands of dollars)	Payments Due by Period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	After 5 years
Operating leases	\$ 825	\$ 317	\$ 476	\$ 32	\$ Nil
Purchase obligations	426	226	200	Nil	Nil
Decommissioning and rehabilitation provision (undiscounted basis)	6,177	37	710	131	5,299
Total	\$ 7,428	\$ 580	\$ 1,386	\$ 163	\$ 5,299

Share Data

As at the date of this MD&A, the Corporation has 77,346,022 common shares issued and outstanding, including shares held by the Corporation's restricted share unit plan trustee. In addition, there are outstanding incentive share options for a further 5,939,497 common shares, restricted share units that can be settled by way of shares issued from treasury for a further 490,906 common shares, and purchase warrants for a further 4,331,538.

Use of Financial Instruments

All of Alexco's cash and cash equivalents at December 31, 2015 were held in the form of demand deposits. Alexco's restricted cash and deposits were held in the form of term deposits and demand deposits. Alexco's other financial instruments were its trade and other accounts receivable, its accounts payable and accrued liabilities, and its long-term investments in common shares of Till Capital Ltd. (formerly Americas Bullion Royalty Corp.) ("TIL").

At December 31, 2015, a total of \$4,173,000 of Alexco's restricted cash and deposits represent security provided to regulatory bodies under safekeeping agreements in accordance with its various operating permits. This security is in respect of mine-site reclamation at certain of Alexco's mineral properties, and is releasable back to Alexco as and when reclamation activities are completed. A further \$4,543,000 (US\$3,283,000) represents security provided in the first quarter of 2012 to support certain cost performance commitments under an AEG remediation contract. The balance of Alexco's restricted cash and deposits represent security provided in respect of certain long-term operating lease commitments. Though a portion of term deposits held at December 31, 2015 are included in long term restricted cash, as individual financial instruments they carried initial maturity periods of one year or less. They have been classified as investments held to maturity and accordingly are carried at amortized cost using the effective interest method. All term deposits held are high grade, low risk investments, generally yielding between 1% and 2% per annum, and their carrying amounts approximate their fair values given their short terms and low yields.

The carrying amounts of Alexco's trade and other accounts receivable and accounts payable and accrued liabilities are estimated to reasonably approximate their fair values, while the carrying amount of the long-term investments in common shares of TIL are marked to fair value at each balance sheet date. The fair values of all of Alexco's financial instruments measured at December 31, 2015, other than the common shares of TIL included in long-term investments, constitute Level 2 measurements within the fair value hierarchy defined under IFRS. The fair value of the common shares of TIL constitute Level 1 measurements.

Substantially all of Alexco's cash, demand deposits and term deposits are held with major financial institutions in Canada. With respect to these instruments, management believes the exposure to credit risk is insignificant due to the nature of the institutions with which they are held, and that the exposure to liquidity and interest rate risk is similarly insignificant given the low-risk-premium yields and the demand or short-maturity-period character of the deposits.

Alexco's accounts and other receivables at December 31, 2015 total \$2,488,000, comprised primarily of AEG trade receivables and goods and services tax refunds receivable from government. Alexco's maximum credit risk exposure in respect of its receivables is represented by their carrying amount. Management actively monitors exposure to credit risk under its receivables, particularly AEG trade receivables, and considers the risk of loss to be significantly mitigated due to the financial strength of AEG's major customers which include government organizations as well as substantial corporate entities. As at December 31, 2015, AEG trade receivables are recorded net of a recoverability provision of \$575,000.

Substantially all of Alexco's property, plant and equipment and mineral properties are located in Canada; all of its mining operations and mineral exploration occur in Canada; and a significant majority of AEG's revenues are earned in Canada. However, a portion of AEG's revenues are in US dollars, and receivables arising therefrom are accordingly denominated in US dollars. Also, while a significant majority of the Corporation's operating costs are denominated in Canadian dollars, it does have some exposure to costs, and therefore accounts payable and accrued liabilities, denominated in US dollars.

The Corporation has not employed any hedging activities in respect of the prices for its payable metals or for its exposure to fluctuations in the value of the US dollar.

Off-Balance Sheet Arrangements

Alexco has no off-balance sheet arrangements.

Related Party Transactions

The Corporation's related parties include its subsidiaries and key management personnel.

(a) Key Management Personnel Compensation

	Three Months Ended Dec 31		Year Ended Dec 31	
	2015	2014	2015	2014
Salaries and other short-term benefits	\$ 452	\$ 458	\$ 1,831	\$ 1,919
Share-based compensation	99	122	543	830
	\$ 551	\$ 580	\$ 2,374	\$ 2,749

Key management includes the Corporation's Board of Directors and members of senior management.

Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts and the valuation of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the period reported. Management uses its best estimates for these purposes, based on assumptions that it believes reflect the most probable set of economic conditions and planned courses of action. Notes 3 and 5 of Alexco's 2015 annual consolidated financial statements describes all of the significant accounting policies as well as significant judgment and estimates.

Changes In and Initial Adoption of Accounting Standards and Policies

The Company has not applied the following revised or new IFRS that have been issued but were not yet effective at December 31, 2015. These accounting standards are not expected to have a significant effect on the Company's accounting policies or financial statements:

- IFRS 7, Financial Instruments Disclosures (effective January 1, 2018) requires new disclosures resulting from the amendments to IFRS 9.
- IFRS 9, Financial Instruments (effective January 1, 2018) introduces new requirements for the classification and measurement of financial assets and liabilities.

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC 31 Revenue Barter Transactions involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact the standard is expected to have on its consolidated financial statements.

In January 2016, the IASB issued IFRS 16 – Leases ("IFRS 16") which replaces IAS 17 – Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

Non-IFRS Measures

Adjusted Loss

Adjusted loss excludes amounts recorded with respect to impairment charges, and within this MD&A is provided before tax, net of tax and on a per-share basis. These measures are used by management to facilitate comparability between periods, and are believed to be relevant to external users for the same reason. They are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

These adjusted loss measures are reconciled to financial statement loss measures for the years ending December 31, 2015, 2014 and 2013 as follows (dollar amounts in thousands, and denominated in Canadian dollars), with adjusted loss per share calculated using the same weighted average number of shares outstanding as used for the financial statement measure:

	2015	2014	2013
Loss before taxes	\$ (6,616)	\$ (35,608)	\$ (62,079)
Subtract:			
Write-down of mineral properties	-	25,103	51,840
Write-down of property, plant and equipment	-	4,828	3,501
Write-down of long-term investments	-	-	1,785
Adjusted loss before taxes	(6,616)	(5,677)	(4,953)
Net recovery of income taxes, excluding deferred tax effect of above-noted write-downs	-	314	640
Adjusted net loss	\$ (6,616)	\$ (5,363)	\$ (4,313)
Adjusted loss per share (basic and diluted)	\$(0.08)	\$(0.08)	\$(0.07)

Internal Control Over Financial Reporting

Disclosure Controls and Procedures

Alexco's management, with the participation of its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Corporation's disclosure controls and procedures. Based upon the results of that evaluation, the Alexco's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, Alexco's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by Alexco in reports it files under applicable securities legislation is recorded, processed, summarized and reported within the appropriate time periods and forms specified in those rules and include controls and procedures designed to ensure that information required to be disclosed by Alexco in reports it files under applicable securities legislation is accumulated and communicated to Alexco's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

The management of Alexco is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and the Chief Financial Officer and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the accounting principles under which the Alexco's financial statements are prepared. It includes those policies and procedures that:

- (i) pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions related to and dispositions of Alexco's assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting

principles, and that Alexco receipts and expenditures are made only in accordance with authorizations of management and Alexco's directors; and

- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Alexco assets that could have a material effect on Alexco's financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Alexco's internal control over financial reporting as at December 31, 2015, based on the criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that Alexco's internal control over financial reporting was effective as at December 31, 2015.

There has been no change in Alexco's internal control over financial reporting during Alexco's fiscal year ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, Alexco's internal control over financial reporting.

Risk Factors

The following are major risk factors management has identified which relate to Alexco's business activities. Such risk factors could materially affect Alexco's future financial results, and could cause events to differ materially from those described in forward-looking statements relating to Alexco. Though the following are major risk factors identified by management, they do not comprise a definitive list of all risk factors related to Alexco's business and operations. Other specific risk factors are discussed elsewhere in this MD&A and in Alexco's Annual Information Form for the year ended December 31, 2015.

Negative Cash Flow From Operating Activities

The Corporation has not yet consistently achieved positive operating cash flow, and there are no assurances that the Corporation will not experience negative cash flow from operations in the future. The Corporation has incurred net losses in the past and may incur losses in the future and will continue to incur losses until and unless it can derive sufficient revenues from its mineral projects. Such future losses could have an adverse effect on the market price of the Corporation's common shares, which could cause investors to lose part or all of their investment.

Forward-Looking Statements May Prove Inaccurate

Readers are cautioned not to place undue reliance on forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements. See "Preliminary Notes – Cautionary Statement Regarding Forward-Looking Statements".

Dilution

The Corporation expects to require additional funds to finance its growth and development strategy. If the Corporation elects to raise additional funds by issuing additional equity securities, such financing may substantially dilute the interests of the Corporation's shareholders. The Corporation may also issue

additional securities in the future pursuant to existing and new agreements in respect of its projects or other acquisitions and pursuant to existing securities of the Corporation.

Exploration, Evaluation and Development

Mineral exploration, evaluation and development involves a high degree of risk and few properties which are explored are ultimately developed into producing mines. With respect to Alexco's properties, should any ore reserves exist, substantial expenditures will be required to confirm ore reserves which are sufficient to commercially mine, and to obtain the required environmental approvals and permitting required to commence commercial operations. Should any mineral resource be defined on such properties there can be no assurance that the mineral resource on such properties can be commercially mined or that the metallurgical processing will produce economically viable and saleable products. The decision as to whether a property contains a commercial mineral deposit and should be brought into production will depend upon the results of exploration programs and/or technical studies, and the recommendations of duly qualified engineers and/or geologists, all of which involves significant expense. This decision will involve consideration and evaluation of several significant factors including, but not limited to: (1) costs of bringing a property into production, including exploration and development work, preparation of appropriate technical studies and construction of production facilities; (2) availability and costs of financing; (3) ongoing costs of production; (4) market prices for the minerals to be produced; (5) environmental compliance regulations and restraints (including potential environmental liabilities associated with historical exploration activities); and (6) political climate and/or governmental regulation and control.

The ability of Alexco to sell, and profit from the sale of any eventual production from any of the Alexco's properties will be subject to the prevailing conditions in the marketplace at the time of sale. Many of these factors are beyond the control of Alexco and therefore represent a market risk which could impact the long term viability of Alexco and its operations.

Figures for the Alexco's Resources are Estimates Based on Interpretation and Assumptions and May Yield Less Mineral Production Under Actual Conditions than is Currently Estimated

In making determinations about whether to advance any of its projects to development, Alexco must rely upon estimated calculations as to the mineral resources and grades of mineralization on its properties. Until ore is actually mined and processed, mineral resources and grades of mineralization must be considered as estimates only. Mineral resource estimates are imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling which may prove to be unreliable. Alexco cannot be certain that:

- reserve, resource or other mineralization estimates will be accurate; or
- mineralization can be mined or processed profitably.

Any material changes in mineral resource estimates and grades of mineralization will affect the economic viability of placing a property into production and a property's return on capital. Alexco's resource estimates have been determined and valued based on assumed future prices, cut-off grades and operating costs that may prove to be inaccurate. Extended declines in market prices for silver, gold, lead, zinc and other commodities may render portions of Alexco's mineralization uneconomic and result in reduced reported mineral resources.

Amendments to Silver Purchase Agreement with Silver Wheaton

Certain of the June 16, 2014 amendments to the Silver Purchase Agreement with Silver Wheaton, including the variable production payment based on the spot price of silver, are subject to the Corporation making a US\$20 million payment to Silver Wheaton (see "Three Year History and Significant Acquisitions"). The Corporation will need to raise additional capital to finance this payment. There is no

guarantee that the Corporation will be able to raise such additional capital. In the event that the Corporation is unable to raise such additional capital or is otherwise unable to, or elects not to, make such payment, such amendments will not take effect. If the US\$20 million payment is not made, the variable production payment based on the spot price of silver will not be implemented and, to satisfy the completion test under the Silver Purchase Agreement, the Corporation will need to recommence operations on the KHSD Property and operate the mine and mill at 400 tonnes per day on or before December 31, 2017. Both of these outcomes could materially adversely affect the Corporation. If the completion test is not satisfied by December 31, 2017, the Corporation would be required to pay a capacity related refund to Silver Wheaton in the maximum amount of US\$9.75 million. The Corporation would need to raise additional capital to finance the capacity related refund and there is no guarantee that the Corporation will be able to raise such additional capital. In the event that the Corporation cannot raise such additional capital, the Corporation will default under the terms of the Silver Purchase Agreement.

Keno Hill Silver District

While Alexco has conducted exploration activities in the KHSD, further review of historical records and additional exploration and geological testing will be required to determine whether any of the mineral deposits it contains are economically recoverable. There is no assurance that such exploration and testing will result in favourable results. The history of the Keno Hill District has been one of fluctuating fortunes, with new technologies and concepts reviving the District numerous times from probable closure until 1989, when it did ultimately close down for a variety of economic and technical reasons. Many or all of these economic and technical issues will need to be addressed prior to the commencement of any future production on the Keno Hill properties.

Mining Operations

Decisions by Alexco to proceed with the construction and development of mines, including Bellekeno, are based on development plans which include estimates for metal production and capital and operating costs. Until completely mined and processed, no assurance can be given that such estimates will be achieved. Failure to achieve such production and capital and operating cost estimates or material increases in costs could have an adverse impact on the Corporation's future cash flows, profitability, results of operations and financial condition. Alexco's actual production and capital and operating costs may vary from estimates for a variety of reasons, including: actual resources mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; short-term operating factors, such as the need for sequential development of resource bodies and the processing of new or different resource grades; revisions to mine plans; risks and hazards associated with mining; natural phenomena, such as inclement weather conditions, water availability, floods, fire, rock falls and earthquakes, equipment failure and failure of retaining dams around tailings disposal areas which may result in, among other adverse effects, environmental pollution and consequent liability; and unexpected labour shortages or strikes. Costs of production may also be affected by a variety of factors, including changing waste ratios, metallurgical recoveries, labour costs, commodity costs, general inflationary pressures and currency rates. In addition, the risks arising from these factors are further increased while any such mine is progressing through the ramp-up phase of its operations and has not yet established a consistent production track record.

Furthermore, mining operations at the Bellekeno mine project were suspended as of early September 2013 as a result of sharp and significant declines in precious metals prices during the second quarter of 2013. Re-start of mining operations is dependent on a number of factors, including sustained improvements in silver markets and the effectiveness of cost structure reduction measures, and the uncertainties around the achievement of these factors are significant.

Employee Recruitment and Retention

Recruitment and retention of skilled and experienced employees is a challenge facing the mining sector as a whole. During the late 1990s and early 2000s, with unprecedented growth in the technology sector and an extended cyclical downturn in the mining sector, the number of new workers entering the mining sector was depressed and significant number of existing workers departed, leading to a so-called “generational gap” within the industry. Since the mid- 2000s, this factor was exacerbated by competitive pressures as the mining sector experienced an extended cyclical upturn. Additional exacerbating factors specific to Alexco include competitive pressures in labour force demand from the oil sands sector in northern Alberta and the mining and oil & gas sectors in British Columbia, and the fact that Alexco’s Keno Hill District is a fly-in/fly-out operation. Alexco has experienced employee recruitment and retention challenges, particularly with respect to mill operators in 2011 and through the first three quarters of 2012. There can be no assurance that such challenges won’t continue or resurface, not only with respect to the mill but in other District operational areas as well including mining and exploration. Furthermore, any re-start of mining operations will necessitate the re-hiring of mine and mill personnel.

Permitting and Environmental Risks and Other Regulatory Requirements

The current or future operations of Alexco, including development activities, commencement of production on its properties and activities associated with Alexco’s mine reclamation and remediation business, require permits or licenses from various federal, territorial and other governmental authorities, and such operations are and will be governed by laws, regulations and agreements governing prospecting, development, mining, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities and in mine reclamation and remediation activities generally experience increased costs and delays as a result of the need to comply with the applicable laws, regulations and permits. There can be no assurance that all permits and permit modifications which Alexco may require for the conduct of its operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any project which Alexco might undertake, including but not limited to the Bellekeno mine project.

Any failure by the Corporation to comply with applicable laws, regulations and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions against the Corporation. The Corporation may be required to compensate those suffering loss or damage by reason of the Corporation’s mining operations or mine reclamation and remediation activities and may have civil or criminal fines or penalties imposed upon it for violation of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies and mine reclamation and remediation activities could have a material adverse impact on the Corporation. As well, policy changes and political pressures within and on federal, territorial and First Nation governments having jurisdiction over or dealings with Alexco could change the implementation and interpretation of such laws, regulations and permits, also having a material adverse impact on Alexco. Such impacts could result in one or more of increases in capital expenditures or production costs, reductions in levels of production at producing properties or abandonment or delays in the development of new mining properties.

Environmental Services

A material decline in the level of activity or reduction in industry willingness to spend capital on mine reclamation, remediation or environmental services could adversely affect demand for AEG’s environmental services. Likewise, a material change in mining product commodity prices, the ability of mining companies to raise capital or changes in domestic or international political, regulatory and economic conditions could adversely affect demand for AEG’s services.

Two of AEG's customers accounted for 32.3% and 17.4%, respectively, of environmental services revenues in the 2015 fiscal year. The loss of, or a significant reduction in the volume of business conducted with, either of these customers could have a significant detrimental effect on AEG environmental services business and the Corporation.

The patents which Alexco owns or has access to or other proprietary technology may not prevent AEG's competitors from developing substantially similar technology, which may reduce AEG's competitive advantage. Similarly, the loss of access to any of such patents or other proprietary technology or claims from third parties that such patents or other proprietary technology infringe upon proprietary rights which they may claim or hold would be detrimental to AEG's reclamation and remediation business and a material adverse impact on the Corporation.

AEG may not be able to keep pace with continual and rapid technological developments that characterize the market for AEG's environmental services, and AEG's failure to do so may result in a loss of its market share. Similarly, changes in existing regulations relating to mine reclamation and remediation activities could require AEG to change the way it conducts its business.

AEG is dependent on the professional skill sets of its employees, some of whom would be difficult to replace. The loss of any such employees could significantly affect AEG's ability to service existing clients, its profitability and its ability to grow its business.

Potential Profitability of Mineral Properties Depends Upon Factors Beyond the Control of Alexco

The potential profitability of mineral properties is dependent upon many factors beyond Alexco's control. For instance, world prices of and markets for gold, silver, lead and zinc are unpredictable, highly volatile, potentially subject to governmental fixing, pegging and/or controls and respond to changes in domestic, international, political, social and economic environments. Another factor is that rates of recovery may vary from the rate experienced in tests and a reduction in the recovery rate will adversely affect profitability and, possibly, the economic viability of a property. Profitability also depends on the costs of operations, including costs of labour, materials, equipment, electricity, environmental compliance or other production inputs. Such costs will fluctuate in ways Alexco cannot predict and are beyond Alexco's control, and such fluctuations will impact on profitability and may eliminate profitability altogether. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for development and other costs have become increasingly difficult, if not impossible, to project. These changes and events may materially affect the financial performance of Alexco.

First Nation Rights and Title

The nature and extent of First Nation rights and title remains the subject of active debate, claims and litigation in Canada, including in the Yukon and including with respect to intergovernmental relations between First Nation authorities and federal, provincial and territorial authorities. There can be no guarantee that such claims will not cause permitting delays, unexpected interruptions or additional costs for Alexco's projects.

Title to Mineral Properties

The acquisition of title to mineral properties is a complicated and uncertain process. The properties may be subject to prior unregistered agreements of transfer or land claims, and title may be affected by undetected defects. Although the Corporation has made efforts to ensure that legal title to its properties is properly recorded in the name of the Corporation, there can be no assurance that such title will ultimately be secured. As a result, the Corporation be constrained in its ability to operate its mineral properties or unable to enforce its rights with respect to its mineral properties. An impairment to or defect in the Corporation's title to its mineral properties would adversely affect the Corporation's business and financial condition.

Capitalization and Commercial Viability

Alexco will require additional funds to further explore, develop and mine its properties. Alexco has limited financial resources, and there is no assurance that additional funding will be available to Alexco to carry out the completion of all proposed activities, for additional exploration or for the substantial capital that is typically required in order to place a property into commercial production. Although Alexco has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that Alexco will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of its properties.

General Economic Conditions May Adversely Affect Alexco's Growth and Profitability

The unprecedented events in global financial markets since 2008 have had a profound impact on the global economy and led to increased levels of volatility. Many industries, including the mining industry, are impacted by these market conditions. Some of the impacts of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign currency exchange and precious metal markets, and a lack of market liquidity. If the current turmoil and volatility levels continue they may adversely affect Alexco's growth and profitability. Specifically:

- a global credit/liquidity or foreign currency exchange crisis could impact the cost and availability of financing and Alexco's overall liquidity;
- the volatility of silver and other commodity prices would impact Alexco's revenues, profits, losses and cash flow;
- volatile energy prices, commodity and consumables prices and currency exchange rates would impact Alexco's operating costs; and
- the devaluation and volatility of global stock markets could impact the valuation of Alexco's equity and other securities.

These factors could have a material adverse effect on Alexco's financial condition and results of operations.

Operating Hazards and Risks

In the course of exploration, development and production of mineral properties, certain risks, particularly including but not limited to unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding and earthquakes, may occur. It is not always possible to fully insure against such risks and the Corporation may decide not to insure against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Corporation.

Adverse weather conditions could also disrupt the Corporation's environmental services business and/or reduce demand for the Corporation's services.

Competition

Significant and increasing competition exists for mining opportunities internationally. There are a number of large established mining companies with substantial capabilities and far greater financial and technical resources than the Corporation. The Corporation may be unable to acquire additional attractive mining

properties on terms it considers acceptable and there can be no assurance that the Corporation's exploration and acquisition programs will yield any reserves or result in any commercial mining operation.

Certain of the Corporation's Directors and Officers are Involved with Other Natural Resource Companies, Which May Create Conflicts of Interest from Time to Time

Some of the Corporation's directors and officers are directors or officers of other natural resource or mining-related companies. These associations may give rise to conflicts of interest from time to time. As a result of these conflicts of interest, the Corporation may miss the opportunity to participate in certain transactions.

The Corporation May Fail to Maintain Adequate Internal Control Over Financial Reporting Pursuant to the Requirements of the Sarbanes-Oxley Act.

Section 404 of the Sarbanes-Oxley Act ("SOX") requires an annual assessment by management of the effectiveness of the Corporation's internal control over financial reporting. The Corporation may fail to maintain the adequacy of its internal control over financial reporting as such standards are modified, supplemented or amended from time to time, and the Corporation may not be able to ensure that it can conclude, on an ongoing basis, that it has effective internal control over financial reporting in accordance with Section 404 of SOX. The Corporation's failure to satisfy the requirements of Section 404 of SOX on an ongoing, timely basis could result in the loss of investor confidence in the reliability of its financial statements, which in turn could harm the Corporation's business and negatively impact the trading price or the market value of its securities. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Corporation's operating results or cause it to fail to meet its reporting obligations. Future acquisitions of companies, if any, may provide the Corporation with challenges in implementing the required processes, procedures and controls in its acquired operations. No evaluation can provide complete assurance that the Corporation's internal control over financial reporting will detect or uncover all failures of persons within the Corporation to disclose material information otherwise required to be reported. The effectiveness of the Corporation's processes, procedures and controls could also be limited by simple errors or faulty judgments. Although the Corporation intends to expend substantial time and incur substantial costs, as necessary, to ensure ongoing compliance, there is no certainty that it will be successful in complying with Section 404 of SOX.

Summary of Resources

The following table sets forth the estimated resources for the Corporation's mineral properties:

Category ^{1,2,11}	Property	Tonnes	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Contained Ag (oz)
Indicated	Bellekeno Deposit ^{3&4}	262,000	585	n/a	3.5%	5.3%	4,927,000
	Lucky Queen Deposit ^{3&5}	124,000	1,227	0.2	2.6%	1.7%	4,892,000
	Flame & Moth Deposit ^{3&6}	1,638,000	506	0.4	1.9%	5.4%	26,650,000
	Onek ^{3&7}	654,000	200	0.6	1.3%	12.3%	4,205,000
	Birmingham ^{3&8}	377,000	430	0.1	1.6%	1.7%	5,212,000
	Total Indicated – Sub-Surface	3,055,000	467	n/a	1.9%	6.3%	45,886,000
	Elsa Tailings ⁹	2,490,000	119	0.1	1.0%	0.7%	9,527,000
	Total Indicated – All Deposits	5,545,000	311	n/a	1.5%	3.8%	55,413,000
Inferred	Bellekeno Deposit ^{3&4}	243,000	428	n/a	4.1%	5.1%	3,344,000
	Lucky Queen Deposit ^{3&5}	150,000	571	0.2	1.4%	0.9%	2,754,000
	Flame & Moth Deposit ^{3&6}	348,000	366	0.3	0.5%	4.4%	4,095,000
	Onek ^{3&7}	234,000	134	0.4	1.2%	8.9%	1,008,000
	Birmingham ^{3&8}	52,000	477	0.1	1.2%	1.9%	797,000
	Total Inferred	1,027,000	363	n/a	1.7%	4.9%	11,998,000
Historical Resources	Silver King ¹⁰						
	- Proven, probable and indicated	99,000	1,354	n/a	1.6%	0.1%	4,310,000
	- Inferred	22,500	1,456	n/a	0.1%	n/a	1,057,000

Notes:

- All mineral resources are classified following the CIM Definition Standards for Mineral Resources and Mineral Reserves (May 2014), in accordance with the CIM Estimation of Mineral Resources and Mineral Reserves Best Practice Guidelines and the guidelines of NI 43-101.
- Mineral resources are not mineral reserves and do not have demonstrated economic viability. All numbers have been rounded to reflect the relative accuracy of the estimates.
- The Keno Hill Silver District is comprised of five deposits: Bellekeno, Lucky Queen and Flame & Moth, Onek and Birmingham, of which Bellekeno, Lucky Queen and Flame & Moth are incorporated into the current mine plan outlined in the technical report filed on SEDAR dated December 10, 2014 entitled "Updated Preliminary Economic Assessment for the Keno Hill Silver District Project – Phase 2, Yukon, Canada". The mineral resource estimates for the project are supported by (a) disclosure in the news release dated December 23, 2014 entitled "Alexco Updates Positive Preliminary Economic Assessment for Expanded Silver Production from Keno Hill Silver District, Yukon"; and (b) a technical report filed on SEDAR dated December 10, 2014 entitled "Updated Preliminary Economic Assessment for the Keno Hill Silver District Project – Phase 2, Yukon, Canada". The mineral resource estimates for the Flame & Moth and Birmingham deposits are further supported by disclosure in the news release dated April 30, 2015 entitled "Alexco Announces Indicated Silver Resource Estimate Increases of 17% at Flame & Moth and 26% at Birmingham, Resulting in a 10% Increase Overall for Keno Hill Silver District".
- The resource estimates for the Bellekeno deposit are based on a geologic resource estimate having an effective date of September 30, 2012. The Bellekeno indicated mineral resources are as at September 30, 2013, and reflect the geologic resource less estimated subsequent depletion from mine production.
- The resource estimates for the Lucky Queen deposit have an effective date of July 27, 2011.
- The resource estimates for the Flame & Moth deposit have an effective date of April 28, 2015.
- The resource estimates for Onek have an effective date of October 15, 2014.
- The resource estimates for Birmingham have an effective date of April 28, 2015.
- The resource estimate for the Elsa Tailings has an effective date of April 22, 2010, and is supported by the technical report dated June 16, 2010 entitled "Mineral Resource Estimation, Elsa Tailings Project, Yukon, Canada".
- Historical resources for Silver King are supported by disclosure in the news release dated December 23, 2014 entitled "Alexco Updates Positive Preliminary Economic Assessment for Expanded Silver Production from Keno Hill Silver District, Yukon".
- The disclosure regarding the summary of estimated resources for Alexco's mineral properties within the Keno Hill District has been reviewed and approved by Scott Smith, P.Eng., former Bellekeno Mine Manager and a Qualified Person as defined by NI 43-101.

Cautionary Statement Regarding Forward-Looking Statements

This MD&A contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 and forward-looking information within the meaning of applicable Canadian securities laws (together, "forward-looking statements") concerning the Corporation's business plans, including but not limited to anticipated results and developments in the Corporation's operations in future periods, planned exploration and development of its mineral properties, plans related to its business and other matters that may occur in the future, made as of the date of this MD&A.

Forward-looking statements may include, but are not limited to, statements with respect to future remediation and reclamation activities, future mineral exploration, the estimation of mineral reserves and mineral resources, the realization of mineral reserve and mineral resource estimates, future mine construction and development activities, future mine operation and production, the timing of activities, the amount of estimated revenues and expenses, the success of exploration activities, permitting time lines, requirements for additional capital and sources and uses of funds. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "anticipates", "plans", "estimates", "intends", "strategy", "goals", "objectives" or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be "forward-looking statements".

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by the forward-looking statements. Such factors include, but are not limited to, risks related to actual results and timing of exploration and development activities; actual results and timing of mining activities; actual results and timing of environmental services operations; actual results and timing of remediation and reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of silver, gold, lead, zinc and other commodities; possible variations in mineable resources, grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; First Nation rights and title; continued capitalization and commercial viability; global economic conditions; competition; and delays in obtaining governmental approvals or financing or in the completion of development activities. Furthermore, forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Corporation or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including but not limited to those referred to in this MD&A under the heading "Risk Factors" and elsewhere.

Forward-looking statements are based on certain assumptions that management believes are reasonable at the time they are made. In making the forward-looking statements included in this AIF, the Corporation has applied several material assumptions, including, but not limited to, the assumption that: (1) additional financing needed to fund certain contingent payment obligations to Silver Wheaton and, the US\$20 million payment to Silver Wheaton referred to above will be available on reasonable terms; (2) additional financing needed for the capacity related refund under the silver purchase agreement with Silver Wheaton will be available on reasonable terms; (3) additional financing needed for further exploration and development work on the Corporation's properties will be available on reasonable terms; (4) the proposed development of its mineral projects will be viable operationally and economically and proceed as planned; (5) market fundamentals will result in sustained silver, gold, lead and zinc demand and prices, and such prices will not be materially lower than those estimated by management in preparing the annual financial statements for the year ended December 31, 2015; (6) market fundamentals will result in sustained silver, gold, lead and zinc demand and prices, and such prices will be materially consistent with or more favourable than those anticipated in the Preliminary Economic Assessment ("PEA") (as defined under "Description of the Business – KHSD Property"); (7) the actual nature, size and grade of its mineral

resources are materially consistent with the resource estimates reported in the supporting technical reports; (8) labor and other industry services will be available to the Corporation at prices consistent with internal estimates; (9) the continuances of existing and, in certain circumstances, proposed tax and royalty regimes; and (10) that other parties will continue to meet and satisfy their contractual obligations to the Corporation. Statements concerning mineral reserve and resource estimates may also be deemed to constitute forward-looking information to the extent that they involve estimates of the mineralization that will be encountered if the property is developed. Other material factors and assumptions are discussed throughout this MD&A and, in particular, under both “Critical Accounting Estimates” and “Risk Factors”.

The Corporation's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made and should not be relied on as representing the Corporation's views on any subsequent date. While the Corporation anticipates that subsequent events may cause its views to change, the Corporation specifically disclaims any intention or any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change, except as required by applicable law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

Cautionary Note to U.S. Investors – Information Concerning Preparation of Resource Estimates

This MD&A has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of United States securities laws. The terms “mineral reserve”, “proven mineral reserve” and “probable mineral reserve” are Canadian mining terms as defined in accordance with NI 43-101 and the Canadian Institute of Mining, Metallurgy and Petroleum (the “**CIM**”) – *CIM Definition Standards on Mineral Resources and Mineral Reserves*, adopted by the CIM Council, as amended. These definitions differ from the definitions in the United States Securities and Exchange Commission's (“**SEC**”) Industry Guide 7 under the United States Securities Act of 1933, as amended. Under SEC Industry Guide 7 standards, mineralization cannot be classified as a “reserve” unless the determination has been made that the mineralization could be economically and legally extracted at the time the reserve determination is made. As applied under SEC Industry Guide 7, a “final” or “bankable” feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves, and all necessary permits and government authorizations must be filed with the appropriate governmental authority.

In addition, the terms “mineral resource”, “measured mineral resource”, “indicated mineral resource” and “inferred mineral resource” are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under SEC Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that all or any part of a mineral deposit in these categories will ever be converted into reserves. “Inferred mineral resources” have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable. Disclosure of “contained ounces” in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute “reserves” by SEC Industry Guide 7 standards as in place tonnage and grade without reference to unit measures.

Accordingly, information concerning mineral deposits contained in this MD&A may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Alexco Resource Corp. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and the Chief Financial Officer and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. It includes those policies and procedures that:

- (i) pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions related to and dispositions of Alexco's assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that Alexco receipts and expenditures are made only in accordance with authorizations of management and Alexco's directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Alexco assets that could have a material effect on Alexco's financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Alexco's internal control over financial reporting as at December 31, 2015, based on the criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that Alexco's internal control over financial reporting was effective as at December 31, 2015.

"Clynton R. Nauman"
(signed)

Clynton R. Nauman
President and Chief Executive Officer

March 23, 2016

"Michael Clark"
(signed)

Michael Clark
Chief Financial Officer



March 22, 2016

Independent Auditor's Report

To the Shareholders of Alexco Resource Corp.

We have audited the accompanying consolidated financial statements of Alexco Resource Corp., which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014 and the consolidated statements of loss and comprehensive loss, cash flows and shareholders' equity for each of the three years in the period ended December 31, 2015, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. We were not engaged to perform an audit of the company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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T: +1 604 806 7000, F: +1 604 806 7806, www.pwc.com/ca*



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alexco Resource Corp. as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2015 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

signed "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

ALEXCO RESOURCE CORP.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

(expressed in thousands of Canadian dollars)

	Note	2015	2014
ASSETS			
Current Assets			
Cash and cash equivalents	6	\$ 8,163	\$ 8,639
Accounts and other receivables	7	2,488	3,951
Restricted cash and deposits	9	4,089	1,063
Inventories	8	82	73
Prepaid expenses and other current assets		407	503
		15,229	14,229
Non-Current Assets			
Restricted cash and deposits	9	4,871	9,152
Inventories	8	5,165	5,167
Long-term investments		386	597
Property, plant and equipment	10	16,092	17,935
Mineral properties	11	60,483	57,772
Intangible assets		316	343
Total Assets		\$ 102,542	\$ 105,195
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	13	\$ 2,143	\$ 2,398
Environmental services contract loss provision	14	116	59
Deferred revenue		447	1,338
Flow-through share premium pending renunciation	17	307	-
		3,013	3,795
Non-Current Liabilities			
Environmental services contract loss provision	14	211	204
Deferred revenue		272	479
Silver streaming interest	15	18,118	18,118
Decommissioning and rehabilitation provision	16	5,111	4,151
Deferred income tax liabilities	22	784	1,411
Total Liabilities		27,509	28,158
Shareholders' Equity		75,033	77,037
Total Liabilities and Shareholders' Equity		\$ 102,542	\$ 105,195

COMMITMENTS

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**APPROVED ON BEHALF OF
THE BOARD OF DIRECTORS**

"Terry Krepiakovich"
(signed)

Director

"Michael Winn"
(signed)

Director

ALEXCO RESOURCE CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31

(expressed in thousands of Canadian dollars, except per share and share amounts)

	Note	2015	2014	2013
Revenues				
Mining operations		\$ -	\$ 361	\$ 43,114
Environmental services		14,662	14,925	16,319
Total revenues		14,662	15,286	59,433
Cost of Sales				
	19			
Mining operations		-	-	43,143
Environmental services		11,411	10,037	7,470
Total cost of sales		11,411	10,037	50,613
Gross Profit (Loss)				
Mining operations		-	361	(29)
Environmental services		3,251	4,888	8,849
Total gross profit		3,251	5,249	8,820
General and administrative expenses	20	8,474	8,466	12,471
Mine site care and maintenance	21	2,351	3,130	1,210
Foreign exchange gain		(1,054)	(660)	(182)
		9,771	10,936	13,499
Operating Loss		(6,520)	(5,687)	(4,679)
Other Income (Expenses)				
Investment income		101	66	246
Other income		14	-	-
Finance costs		(56)	(42)	(47)
Derivative loss		-	(14)	(98)
Write-down of mineral properties	12	-	(25,103)	(51,840)
Write-down of property, plant and equipment	12	-	(4,828)	(3,501)
Loss on impaired long-term investments		(155)	-	(2,160)
Loss Before Taxes		(6,616)	(35,608)	(62,079)
Income Tax Provision (Recovery)				
Current	22	(24)	18	231
Deferred	22	(1,083)	(2,854)	(11,860)
Net Loss		(5,509)	(32,772)	(50,450)
Other Comprehensive Income (Loss)				
Items that may be reclassified subsequently to net income (loss)				
Cumulative translation adjustments, net of tax \$456, \$251, \$nil		(472)	(24)	(311)
Gain (loss) on long-term investments		(211)	72	(2,062)
Recycle loss on impaired long-term investments to statement of loss		155	-	2,160
Total Comprehensive Loss		\$ (6,037)	\$ (32,724)	\$ (50,663)
Loss Per Share				
Basic	23	\$ (0.08)	\$ (0.50)	\$ (0.81)
Diluted	23	\$ (0.08)	\$ (0.50)	\$ (0.81)

The accompanying notes are an integral part of these consolidated financial statements

ALEXCO RESOURCE CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

(expressed in thousands of Canadian dollars)

	2015	2014	2013
Cash Flows from Operating Activities			
Net (loss) income	\$ (5,509)	\$ (32,772)	\$ (50,450)
Items not affecting cash from operations:			
Deferred revenue	(1,098)	411	(570)
Depletion of mineral properties	-	-	15,585
Environmental services contract loss provision (note 14)	64	150	(1,653)
Silver streaming interest amount recognized	-	(72)	(9,892)
Depreciation of property, plant and equipment	2,168	2,906	2,915
Amortization of intangible assets	78	43	137
Share-based compensation expense	645	1,038	2,419
Finance costs, foreign exchange and other	(1,142)	(598)	(173)
Write-down of inventory	-	-	886
Write-down of mineral properties	-	25,103	51,840
Write-down of property, plant and equipment	-	4,828	3,501
Loss on impaired long-term investments	155	-	2,160
Write-off of receivables	643	-	-
Deferred income tax recovery	(1,083)	(2,854)	(11,854)
Release of restricted cash on Globeville security	1,685	-	-
Changes in non-cash working capital balances related to operations			
Decrease in accounts and other receivables	821	978	4,868
(Increase) decrease in inventories	(8)	20	908
(Increase) decrease in prepaid expenses and other current assets	97	(67)	105
Increase (decrease) in accounts payable and accrued liabilities	(199)	161	(7,195)
Increase (decrease) in income taxes payable	(23)	2	(130)
	(2,706)	(723)	3,407
Cash Flows from Investing Activities			
Expenditures on mining operations properties	(264)	(699)	(9,639)
Expenditures on exploration and evaluation properties	(1,769)	(5,652)	(10,429)
Purchase of property, plant and equipment	(44)	(136)	(2,041)
Decrease (increase) in restricted cash and deposits	692	60	(530)
	(1,385)	(6,427)	(22,639)
Cash Flows from Financing Activities			
Proceeds from issuance of shares	3,962	8,068	7,035
Issuance costs	(347)	(889)	(552)
Proceeds from exercise of shares options	-	-	140
Purchase of RSU settlement shares	-	-	(1,869)
	3,615	7,179	4,754
Increase (decrease) in Cash and Cash Equivalents	(476)	29	(14,478)
Cash and Cash Equivalents - Beginning of Year	8,639	8,610	23,088
Cash and Cash Equivalents - End of Year	8,163	8,639	8,610

SUPPLEMENTAL CASH FLOW INFORMATION (see note 26)

The accompanying notes are an integral part of these consolidated financial statements

ALEXCO RESOURCE CORP.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(expressed in thousands of Canadian dollars)

Common Shares

	Number of Shares	Amount	Warrants	Share Options and RSU's	Contributed Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance - December 31, 2014	69,335,566	\$ 164,708	\$ 1,342	\$ 8,519	\$ 10,829	\$ (108,177)	\$ (184)	\$ 77,037
Net loss	-	-	-	-	-	(5,509)	-	(5,509)
Other comprehensive loss	-	-	-	-	-	-	(528)	(528)
Equity offering, net of issuance costs (note 17)	7,662,500	3,257	63	-	-	-	-	3,320
compensation expense recognized	-	-	-	713	-	-	-	713
Share options forfeited or expired	-	-	-	(1,234)	1,234	-	-	-
Release of RSU settlement shares	227,957	620	-	(620)	-	-	-	-
Balance - December 31, 2015	77,226,023	\$ 168,585	\$ 1,405	\$ 7,378	\$ 12,063	\$ (113,686)	\$ (712)	\$ 75,033
Balance - December 31, 2013	62,172,233	\$ 157,983	\$ -	\$ 11,092	\$ 7,741	\$ (75,405)	\$ (232)	\$ 101,179
Net loss	-	-	-	-	-	(32,772)	-	(32,772)
Other comprehensive loss	-	-	-	-	-	-	48	48
Equity offering, net of issuance costs (note 17)	7,015,000	6,102	1,342	-	-	-	-	7,444
compensation expense recognized	-	-	-	1,138	-	-	-	1,138
Share options forfeited or expired	-	-	-	(3,088)	3,088	-	-	-
Release of RSU settlement shares	148,333	623	-	(623)	-	-	-	-
Balance - December 31, 2014	69,335,566	\$ 164,708	\$ 1,342	\$ 8,519	\$ 10,829	\$ (108,177)	\$ (184)	\$ 77,037
Balance - December 31, 2012	60,428,898	\$ 155,042	\$ -	\$ 11,113	\$ 5,364	\$ (24,955)	\$ (19)	\$ 146,545
Net loss	-	-	-	-	-	(50,450)	-	(50,450)
Other comprehensive loss	-	-	-	-	-	-	(213)	(213)
Equity offering, net of issuance costs (note 17)	2,100,000	4,442	-	-	-	-	-	4,442
compensation expense recognized	-	-	-	2,585	-	-	-	2,585
Exercise of share options	45,000	204	-	(65)	-	-	-	139
expired	-	-	-	(2,377)	2,377	-	-	-
Release of RSU settlement shares	43,335	164	-	(164)	-	-	-	-
Purchase of RSU settlement shares	(445,000)	(1,869)	-	-	-	-	-	(1,869)
Balance - December 31, 2013	62,172,233	\$ 157,983	\$ -	\$ 11,092	\$ 7,741	\$ (75,405)	\$ (232)	\$ 101,179

1. Description of Business and Nature of Operations

Alexco Resource Corp. (“Alexco” or the “Corporation”) was incorporated under the Business Corporations Act (Yukon) on December 3, 2004 and commenced operations on March 15, 2005. Effective December 28, 2007, it was continued under the Business Corporations Act (British Columbia). The Corporation operates two principal businesses: a mining business, comprised of mineral exploration and mine development and operation in Canada, located in the Yukon Territory; and through its Alexco Environmental Group (“AEG”), an environmental services business, providing consulting, remediation solutions and project management services in respect of environmental permitting and compliance and site remediation, in Canada and the United States.

The Corporation is in the process of exploring and developing its mineral properties. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, successful permitting, the ability of the Corporation to obtain necessary financing to complete exploration and development, and upon future profitable production or proceeds from disposition of each mineral property. Furthermore, the acquisition of title to mineral properties is a complicated and uncertain process, and while the Corporation has taken steps in accordance with common industry practice to verify its title to the mineral properties in which it has an interest, there can be no assurance that such title will ultimately be secured. The carrying amounts of mineral properties are based on costs incurred to date, adjusted for depletion and impairments, and do not necessarily represent present or future values.

In September 2013, Bellekeno mining operations were suspended in light of a sharply reduced silver price environment and have remained on care maintenance since then.

Alexco is a public company which is listed on the Toronto Stock Exchange (under the symbol AXR) and the NYSE MKT Equities Exchange (under the symbol AXU). The Corporation’s corporate head office is located at Suite 1225, Two Bentall Centre, 555 Burrard Street, Box 216, Vancouver, BC, Canada, V7X 1M9.

2. Basis of Preparation and Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board, and were approved for issue by the Board of Directors on March 22, 2016.

These consolidated financial statements have been prepared on a going concern basis under the historical cost method, except for derivative financial instruments, share-based compensation and certain financial assets which have been measured at fair value. All figures are expressed in Canadian dollars unless otherwise indicated.

3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these financial statements are summarized below.

(a) Basis of Consolidation

The Corporation’s consolidated financial statements include the accounts of the Corporation and its subsidiaries. Subsidiaries are entities controlled by the Corporation, where control is achieved by the Corporation being exposed to, or having rights to, variable returns from its involvement with the entity and having the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained by Alexco, and are de-consolidated from the date that control ceases.

The following subsidiaries have been consolidated for all dates presented within these financial statements, and are wholly owned: Alexco Keno Hill Mining Corp. (formerly Alexco Resource Canada Corp., formerly 650399 B.C. Ltd.), Elsa Reclamation & Development Corporation Ltd. (“ERDC”), Alexco Exploration Canada Corp., Alexco Environmental Group Inc. (formerly Access

ALEXCO RESOURCE CORP.
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(figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

Mining Consultants Ltd.), Alexco Environmental Group (U.S.) Inc. (formerly Alexco Resource U.S. Corp.) ("AEG US"), and Alexco Financial Guaranty Corp. ("AFGC").

All significant inter-company transactions, balances, income and expenses are eliminated on consolidation.

(b) Cash and Cash Equivalents

Cash and cash equivalents are unrestricted as to use and consist of cash on hand, demand deposits and short term interest-bearing investments with maturities of 90 days or less from the original date of acquisition and which can readily be liquidated to known amounts of cash. Redeemable interest bearing investments with maturities of up to one year are considered cash equivalents if they can readily be liquidated at any point in time to known amounts of cash and they are redeemable thereafter until maturity for invested value plus accrued interest.

(c) Inventories

Inventories include ore in stockpiles, concentrate and materials and supplies. Ore in stockpiles and concentrate are recorded at the lower of weighted average cost and net realizable value. Cost comprises all mining and processing costs incurred, including labor, consumables, production-related overheads, depreciation of production-related property, plant and equipment and depletion of related mineral properties. Net realizable value is estimated at the selling price in the ordinary course of business less applicable variable selling expenses. Materials and supplies are valued at the lower of cost and replacement cost, costs based on landed cost of purchase, net of a provision for obsolescence where applicable.

When inventories have been written down to net realizable value, a new assessment of net realizable value is made in each subsequent period. When circumstances that caused the write-down no longer exist or when there is clear evidence of an increase in net realizable value, the amount of the write down is reversed.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment write-downs. The cost capitalized is determined by the fair value of consideration given to acquire the asset at the time of acquisition or construction, the direct cost of bringing the asset to the condition necessary for operation, and the estimated future cost of decommissioning and removing the asset. Repairs and maintenance expenditures are charged to operations, while major improvements and replacements which extend the useful life of an asset are capitalized.

Depreciation of property, plant and equipment is calculated using the following methods:

Heavy machinery and equipment	5 years straight-line
Land and buildings	20 years straight-line
Leasehold improvements & Other	Over the term of lease, and 2 – 5 years straight-line
Roads, Camp and other site infrastructure	5 -10 years straight-line
Ore-processing mill components	Variously between 5 and 30 years straight-line

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other gains or losses in earnings.

(e) Mineral Properties

Exploration and Evaluation Properties

The Corporation capitalizes exploration and evaluation expenses at cost for expenditures incurred after it has obtained legal rights to explore a specific area and before technical feasibility and commercial viability of extracting mineral resources are demonstrable.

(figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

All direct and indirect costs relating to the exploration of specific properties with the objective of locating, defining and delineating the resource potential of the mineral interests on specific properties are capitalized as exploration and evaluation assets, net of any directly attributable recoveries recognized, such as exploration or investment tax credits.

At each reporting date, exploration and evaluation assets are evaluated and classified as mining operations assets upon completion of technical feasibility and determination of commercial viability.

Grassroots exploration expenditures incurred prior to the Corporation acquiring or obtaining the right to acquire a mineral property are expensed.

Mining Operations Properties

Mining operations properties are recorded at cost on a property-by-property basis. The recorded cost of mining operations properties is based on acquisition costs incurred to date, including capitalized exploration and evaluation costs and capitalized development costs, less depletion, recoveries and write-offs. Capitalized development costs include costs incurred to establish access to mineable resources where such costs are expected to provide a long-term economic benefit, as well as operating costs incurred, net of the proceeds from any sales generated, prior to the time the property achieves commercial production.

Depletion of mining operations properties is calculated on the units-of-production basis using estimated mine plan resources, such resources being those defined in the mine plan on which the applicable mining activity is based. The mine plan resources for such purpose are generally as described in an economic analysis supported by a technical report compliant with Canadian National Instrument 43-101 *Standards of Disclosure for Mineral Projects*.

(f) Intangible Assets

Customer relationships, rights to provide services and database assets acquired through business combinations, and acquired patents, are recorded at fair value at acquisition date. All of the Corporation's intangible assets have finite useful lives, and are amortized using the straight-line method over their expected useful lives.

(g) Impairment of Non-Current Non-Financial Assets

The carrying amounts of non-current non-financial assets are reviewed and evaluated for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. Non-current non-financial assets include property, plant, equipment, mineral properties and finite-life intangible assets. If the recoverable amount is less than the carrying amount of the asset, an impairment loss is recognized and the asset is written down to recoverable value.

The recoverable amount is the higher of an asset's "fair value less cost of disposal" and "value-in-use". Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which the asset belongs is determined, with a cash-generating unit being the smallest identifiable group of assets and liabilities that generate cash inflows independent from other assets. Exploration and evaluation assets are each separately assessed for impairment, and are not allocated by the Corporation to a cash generating unit ("CGU") for impairment assessment purposes. "Fair value less cost of disposal" is determined as the amount that would be obtained from the sale of the asset or cash-generating unit in an arm's length transaction between knowledgeable and willing parties. In assessing "value-in-use", the future cash flows expected to arise from the continuing use of the asset or cash-generating unit in its present form are estimated using assumptions that an independent market participant would consider appropriate, and are then discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset or unit.

Where conditions that gave rise to a recognized impairment loss are subsequently reversed, the amount of such reversal is recognized into earnings immediately, though is limited such that the

revised carrying amount of the asset or cash-generating unit does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash generating unit.

(h) Silver Streaming Interest

Advance payments received under the silver streaming interest acquired by Silver Wheaton Corp. ("Silver Wheaton") have been deferred and are being recognized on a units-of-production-sold basis, as a component of the cost of sales for that production. The amount recognized each period represents the proportion of silver ounces deliverable under the streaming interest on account of silver production sold that period, to the total ounces of silver which at the time are estimated as remaining to be delivered under the streaming interest. Also recognized within cost of sales each period is the actual or estimated market price of the silver ounces delivered or deliverable under the streaming interest on account of silver production sold that period, less the related per-ounce cash amount received or to be received from Silver Wheaton on such delivery.

(i) Provisions

General

Provisions are recorded when a present legal or constructive obligation exists as a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

The expense relating to any provision is presented in profit or loss net of any reimbursement. Provisions are discounted using a current risk-free pre-tax rate that reflects where appropriate the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Decommissioning and Rehabilitation Provision

The Corporation recognizes a decommissioning and rehabilitation provision for statutory, contractual, constructive or legal obligations to undertake reclamation and closure activities associated with property, plant, equipment and mineral properties, generally at the time that an environmental or other site disturbance occurs or a constructive obligation for reclamation and closure activities is determined. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. Provisions are measured at the present value of the expected future expenditures required to settle the obligation, using a risk-free pre-tax discount rate reflecting the time value of money and risks specific to the liability. The liability is increased for the passage of time, and adjusted for changes to the current market-based risk-free discount rate as well as changes in the estimated amount or timing of the expected future expenditures. The associated restoration costs are capitalized as part of the carrying amount of the related asset and then depreciated accordingly.

(j) Revenue Recognition

All revenue is measured at the fair value of the consideration received or receivable when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Corporation, and is subject to the provision that ultimate collection be reasonably assured at the time of recognition.

Revenue arising from sale of concentrate under the Corporation's off-take agreements is recognized when the significant risks and rewards of ownership have passed, generally at the time of delivery to the smelter and when title and insurance risk has passed to the customer. Revenue from the sale of concentrate is recorded net of charges for smelter treatment and refining. The exposure to changes in metal prices between initial revenue recognition and final settlement, which could occur up to a number of months subsequent to initial recognition, represents an embedded derivative. This embedded derivative is recorded in accounts receivable and marked-to-market each period until final settlement occurs, with changes in fair value classified as an adjustment to

revenue. All amounts received in respect of payable metals within concentrate are accounted for on a co-product basis and are included in revenue.

Revenue from environmental services is recognized with reference to the stage of completion, based on an output appropriate to the particular service contract, such as performance of agreed service deliverables, or provision of billable hours under straight hourly bill contracts. Payments received prior to recognition of the related revenue are recorded as deferred revenue.

(k) Share-Based Compensation and Payments

The cost of incentive share options and other equity-settled share-based compensation and payment arrangements is recorded based on the estimated fair value at the grant date and charged to earnings over the vesting period. With respect to incentive share options, grant-date fair value is measured using the Black-Scholes option pricing model. With respect to restricted share units, grant-date fair value is determined by reference to the share price of the Corporation at the date of grant. Where share-based compensation awards are subject to vesting, each vesting tranche is considered a separate award with its own vesting period and grant-date fair value. Share-based compensation expense is recognized over the tranche's vesting period by a charge to earnings, based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

(l) Flow-Through Shares

The proceeds from the offering of flow-through shares are allocated between the shares and the sale of tax benefits when the shares are offered. The allocation is made based on the difference between the market value of the shares and the amount the investors pay for the flow-through shares. A liability is recognized for the premium paid by the investors and is then recognized in the results of operations in the period the eligible exploration expenditures are incurred.

(m) Warrants

When the Corporation issues units that are comprised of a combination of shares and warrants, the value is assigned to shares and warrants based on their relative fair values. The fair value of the shares is determined by the closing price on the date of the transaction and the fair value of the warrants is determined based on a Black-Scholes option pricing model.

(n) Current and Deferred Income Taxes

Income tax expense comprises current and deferred income taxes. Current and deferred income taxes are recognized in profit or loss except to the extent that they relate to a business combination or to items recognized directly in equity or in other comprehensive income.

Current income taxes are the expected taxes payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous periods.

Deferred income taxes are recognized using the liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. However, deferred income taxes are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss. Deferred income taxes are determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are presented as non-current in the financial statements.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right of offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities but they intend to settle current tax liabilities and assets on a net basis or their

(figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

tax assets and liabilities will be realized simultaneously. Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the assets can be utilized.

(o) Translation of Foreign Currencies

The financial statements of each entity in the group are measured using the currency of the primary economic environment in which each entity operates (the “functional currency”). The consolidated financial statements are presented in Canadian dollars.

The functional currency of all entities in the Corporation group other than AEG US is the Canadian dollar, while the functional currency of AEG US is the United States dollar. The financial statements of AEG US are translated into the Canadian dollar presentation currency using the current rate method as follows:

- Assets and liabilities – at the closing rate at the date of the statement of financial position.
- Income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates).
- All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from the item are considered to form part of the net investment in a foreign operation and are recognized in other comprehensive income.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary is reallocated between controlling and non-controlling interests.

(p) Earnings or Loss Per Share

Basic earnings per share is calculated by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period.

Diluted earnings (loss) per share is calculated using the treasury share method whereby all “in the money” options, warrants and equivalents are assumed to have been exercised at the beginning of the period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period.

(q) Financial Instruments

Financial assets and financial liabilities, including derivative instruments, are initially recognized at fair value on the balance sheet when the Corporation becomes a party to their contractual provisions. Measurement in subsequent periods depends on the financial instrument's classification.

Loans and Receivables

Cash and cash equivalents and accounts and other receivables (other than embedded derivatives) are measured at amortized cost. Where necessary, accounts and other receivables are recorded net of allowances for uncollectible amounts.

Financial Assets at Fair Value Through Profit or Loss

Derivative instruments, including embedded derivatives included within accounts receivable arising from sales of concentrates, are classified as fair value through profit or loss and accordingly are measured at fair value. Unrealized gains and losses on embedded derivatives arising from the sale of concentrates are recognized as adjustments to revenue. Unrealized gains and losses on other derivatives, if any, are recorded as part of other gains or losses in earnings.

Held-to-Maturity Investments

Investments, including term deposits not included in cash equivalents, with fixed or determinable payments and fixed maturity and which the Corporation has the intention and ability to hold to maturity are classified as held to maturity and thus are measured at amortized cost using the effective interest method.

Available-for-Sale Financial Assets

Investments are designated as available-for-sale and measured at fair value, with unrealized gains and losses recognized in other comprehensive income. If a decline in fair value is significant or prolonged, it is deemed to be other-than-temporary and the loss is recognized in earnings. Available-for-sale investments are recorded as non-current assets unless management intends to dispose of them within twelve months of the balance sheet date.

Financial Liabilities

Financial liabilities include accounts payable and accrued liabilities, and are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment and Uncollectibility of Financial Assets

At each reporting date, the Corporation assesses whether there is objective evidence of impairment of any financial asset measured at other than fair value, or available for sale financial assets where a decline in fair value has been recognized in other comprehensive income. If such evidence exists, the Corporation recognizes an impairment loss.

Impairment losses on financial assets carried at amortized cost or a debt instrument carried as available-for-sale are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairments relating to investments in available-for-sale equity instruments are not reversed through profit or loss.

(r) Fair Value Measurement

Where fair value is used to measure assets and liabilities in preparing these financial statements, it is estimated at the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Fair values are determined from inputs that are classified within the fair value hierarchy defined under IFRS as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – Inputs for the asset or liability that are unobservable

4. New and Revised Accounting Standards Adopted

The Company has not applied the following revised or new IFRS that have been issued but were not yet effective at December 31, 2015. These accounting standards are not expected to have a significant effect on the Company's accounting policies or financial statements:

- IFRS 7, Financial Instruments Disclosures (effective January 1, 2018) requires new disclosures resulting from the amendments to IFRS 9.
- IFRS 9, Financial Instruments (effective January 1, 2018) introduces new requirements for the classification and measurement of financial assets and liabilities.

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC 31 Revenue Barter Transactions involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact the standard is expected to have on its consolidated financial statements.

In January 2016, the IASB issued IFRS 16 – Leases ("IFRS 16") which replaces IAS 17 – Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

5. Critical Judgements and Major Sources of Estimation Uncertainty

The preparation of the consolidated financial statements requires management to select accounting policies and make estimates and judgments that may have a significant impact on the consolidated financial statements. Estimates are continuously evaluated and are based on management's experience and expectations of future events that are believed to be reasonable under the circumstances. The estimates management makes in this regard include those regarding future commodity prices and foreign currency exchange rates, which are an important component of several estimates and assumptions management must make in preparing the financial statements, including but not limited to estimations and assumptions regarding the evaluation of the carrying amount of mineral properties and other assets, the estimation of decommissioning and rehabilitation provisions, the estimation of revenues and the value of the embedded derivative related to sales of concentrate, and the estimation of the net realizable value of inventories. Management bases its estimates of future commodity prices and foreign currency exchange rates primarily on consensus investment analyst forecasts, which are tracked and updated as published on generally a quarterly basis. Actual outcomes can differ from these estimates.

The most significant judgments and estimates made by management in preparing the Corporation's financial statements are described as follows:

- *Mineral Resources*

The determination of the Corporation's estimated mineral resources by appropriately qualified persons requires significant judgments regarding the interpretation of complex geological and engineering data including the size, depth, shape and nature of the deposit and anticipated plans for mining, as well as estimates of future commodity prices, foreign exchange rates, capital requirements and production costs. These mineral resource estimates are used in many determinations required to prepare the Corporation's financial statements, including evaluating the recoverability of the carrying amount of its non-current non-financial assets; determining rates of depreciation, depletion and amortization; determining the recognition in income each period of the

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amount of advance payments received under the silver streaming interest; and estimating amounts of deferred income taxes.

- *Impairment of Non-Current Non-Financial Assets*

The Corporation reviews and evaluates the carrying value of each of its non-current non-financial assets for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. The identification of such events or changes and the performance of the assessment requires significant judgment. Furthermore, management's estimates of many of the factors relevant to completing this assessment, including commodity prices, foreign currency exchange rates, mineral resources, and operating, capital and reclamation costs, are subject to risks and estimation uncertainties that may further affect the determination of the recoverability of the carrying amounts of its non-current non-financial assets.

In the preparation of the Corporation's December 31, 2014 consolidated financial statements, certain indicators of potential impairment were identified, and a review of the carrying amounts of non-current non-financial assets was carried out as a result. See note 13 for details on the significant judgements, estimates and assumptions applied in carrying out this review.

- *Decommissioning and Rehabilitation Provision*

Management's determination of the Corporation's decommissioning and rehabilitation provision is based on the reclamation and closure activities it anticipates as being required, the additional contingent mitigation measures it identifies as potentially being required and its assessment of the likelihood of such contingent measures being required, and its estimate of the probable costs and timing of such activities and measures. Significant judgements must be made when determining such reclamation and closure activities and measures required and potentially required.

6. Cash and Cash Equivalents

	December 31 2015	December 31 2014
Cash at bank and on hand	\$ 5,350	\$ 2,526
Short-term bank deposits	2,813	6,113
	\$ 8,163	\$ 8,639

7. Accounts and Other Receivables

	December 31 2015	December 31 2014
Trade receivables	\$ 2,888	\$ 2,922
Interest and other	175	1,508
Less: allowance for doubtful accounts	(575)	(479)
	\$ 2,488	\$ 3,951

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8. Inventories

	December 31 2015	December 31 2014
Ore in stockpiles and mining supplies	\$ 5,165	\$ 5,167
Materials and supplies	82	73
	\$ 5,247	\$ 5,240

As of December 31, 2015, the Company held ore in stockpiles and mining supplies of \$5,165,000 (2014 - \$5,167,000). Due to the expected timing of production recommencing, this amount is classified as a non-current asset. During the year ended December 31, 2015, the cost of inventories recognized as an expense and included in mining cost of sales was \$nil (2014 - \$nil; 2013 - \$44,714,000), and also included in mining cost of sales were write-downs of lead concentrate inventory totaling \$nil (2014 - \$nil; 2013 - \$886,000) (see note 19).

9. Restricted Cash and Deposits

	December 31 2015	December 31 2014
Security for remediation services agreement	\$ 4,543	\$ 5,800
Security for decommissioning obligations	4,189	4,186
Other	228	229
Restricted cash and deposits	8,960	10,215
Less: Current portion	4,089	1,063
	\$ 4,871	\$ 9,152

Security for remediation services agreement of \$4,543,000 (US\$3,283,000) as at December 31, 2015 (2014 - US\$5,000,000; 2013 - US\$5,000,000) represents security that has been posted by AEG US in support of a cost performance commitment provided under an environmental consulting and remediation services agreement with a third party customer. The current portion of \$4,089,000 is the estimated security that will be released as per the service agreement within the next twelve months.

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10. Property, Plant and Equipment

Cost	Land and Buildings	Camp, Roads, and Other Site	Ore Processing Mill	Heavy Machinery and Equipment	Leasehold Improvements & Other	Total
December 31, 2013	\$ 1,364	\$ 5,667	\$ 23,632	\$ 7,276	\$ 1,294	\$ 39,233
Additions	-	-	119	14	11	144
Write-downs	-	(463)	(3,927)	(438)	-	(4,828)
Decommission	-	-	145	-	-	145
change in estimate	-	-	-	-	-	-
Disposals	-	-	-	(78)	-	(78)
December 31, 2014	1,364	5,204	19,969	6,774	1,305	34,616
Additions	-	9	-	25	17	51
Write-downs	-	-	-	-	-	-
Decommission	-	-	433	-	-	433
change in estimate	-	-	-	-	-	-
Disposals	-	-	-	(92)	-	(92)
December 31, 2015	\$ 1,364	\$ 5,213	\$ 20,402	\$ 6,707	\$ 1,322	\$ 35,008

Accumulated Depreciation	Land and Buildings	Camp, Roads, and Other Site	Ore Processing Mill	Heavy Machinery and Equipment	Leasehold Improvements & Other	Total
December 31, 2013	\$ 95	\$ 2,916	\$ 5,154	\$ 4,158	\$ 1,100	\$ 13,423
Depreciation	60	597	1,554	1,033	57	3,301
Disposal	-	-	-	(43)	-	(43)
December 31, 2014	155	3,513	6,708	5,148	1,157	16,681
Depreciation	60	433	1,080	697	51	2,321
Disposal	-	-	-	(86)	-	(86)
December 31, 2015	\$ 215	\$ 3,946	\$ 7,788	\$ 5,759	\$ 1,208	\$ 18,916

Net book Value	Land and Buildings	Camp, Roads, and Other Site	Ore Processing Mill	Heavy Machinery and Equipment	Leasehold Improvements & Other	Total
December 31, 2013	\$ 1,269	\$ 2,751	\$ 18,478	\$ 3,118	\$ 194	\$ 25,810
December 31, 2014	\$ 1,209	\$ 1,691	\$ 13,261	\$ 1,626	\$ 148	\$ 17,935
December 31, 2015	\$ 1,149	\$ 1,267	\$ 12,614	\$ 948	\$ 114	\$ 16,092

During the year ended December 31, 2015, the Corporation recorded total depreciation of property, plant and equipment of \$2,321,000 (2014 – \$3,301,000; 2013 - \$3,455,000), of which \$2,168,000 (2014 – \$2,906,000; 2013 - \$2,915,000) has been charged to income with \$nil (2014 – \$nil; 2013 - \$1,997,000) recorded to mining cost of sales, \$279,000 (2014 – \$307,000; 2013 - \$156,000) recorded in environmental services cost of sales and \$1,889,000 (2014 – \$2,599,000; 2013 - \$762,000) reflected under general expenses and mine site care and maintenance.

Of the balance, \$153,000 (2014 – \$395,000; 2013 - \$448,000) was related to property, plant and equipment used in exploration activities and has been capitalized to mineral properties, and the difference reflects the changes in depreciation capitalized within opening and ending ore and concentrate inventories for the period.

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On December 31, 2014, the Corporation recorded an impairment charge to property, plant and equipment totaling \$4,828,000 (2013 - \$3,501,000; 2012 - \$nil) (see note 13).

11. Mineral Properties

	December 31, 2014	Expenditures Incurred	Written Down	December 31 2015
Mineral Properties				
Keno Hill District Properties –				
Bellekeno	\$ 8,149	\$ 684	\$ -	\$ 8,833
Lucky Queen	1,924	34	-	1,958
Onek	255	34	-	289
McQuesten	3,690	104	-	3,794
Silver King	7,154	-	-	7,154
Flame & Moth	20,467	445	-	20,912
Birmingham	9,717	1,342	-	11,059
Elsa Tailings	884	-	-	884
Other Keno Hill Properties	5,342	68	-	5,410
Other	190	-	-	190
Total	\$ 57,772	\$ 2,711	\$ -	\$ 60,483

	December 31, 2013	Expenditures Incurred	Written Down	December 31 2014
Mineral Properties				
Keno Hill District Properties –				
Bellekeno	\$ 17,715	\$ 278	\$ (9,844)	\$ 8,149
Lucky Queen	9,084	90	(7,250)	1,924
Onek	807	447	(999)	255
McQuesten	3,670	20	-	3,690
Silver King	6,986	168	-	7,154
Flame & Moth	15,002	5,465	-	20,467
Birmingham	9,157	560	-	9,717
Elsa Tailings	884	-	-	884
Other Keno Hill Properties	12,352	-	(7,010)	5,342
Other	190	-	-	190
Total	\$ 75,847	\$ 7,028	\$ (25,103)	\$ 57,772

	Mining Operations Properties	Exploration and Evaluation Properties	Total
December 31, 2015			
Cost	\$ 130,007	\$ 56,413	\$ 186,420
Accumulated depletion and write-downs	118,927	7,010	125,937
Net book value	\$ 11,080	\$ 49,403	\$ 60,483
December 31, 2014			
Cost	\$ 129,255	\$ 54,454	\$ 183,709
Accumulated depletion and write-downs	118,927	7,010	125,937
Net book value	\$ 10,328	\$ 47,444	\$ 57,772
December 31, 2013			
Cost	\$ 128,440	\$ 48,241	\$ 176,681
Accumulated depletion and write-downs	100,834	-	100,834
Net book value	\$ 27,606	\$ 48,241	\$ 75,847

(a) Keno Hill District Properties

The Corporation's mineral interest holdings in the Keno Hill District, located in Canada's Yukon Territory, are comprised of a number of properties.

The majority of the Corporation's mineral rights within the Keno Hill District were purchased from the interim receiver of United Keno Hill Mines Limited and UKH Minerals Limited (collectively, "UKHM") in 2006 and are held by ERDC. As a condition of that purchase, a separate agreement was entered into between Alexco, ERDC, the Government of Canada and the Government of Yukon (the "Subsidiary Agreement"), under which the Government of Canada indemnified ERDC and Alexco from and against all liabilities arising directly or indirectly from the pre-existing condition of the former UKHM mineral rights. The Subsidiary Agreement also provided that ERDC may bring any mine into production on the former UKHM mineral rights by designating a production unit from the mineral rights relevant to that purpose and then assuming responsibility for all costs of the production unit's water related care and maintenance and water related components of closure reclamation.

In addition, the Subsidiary Agreement detailed the basis under which ERDC was retained by the Government of Canada as a paid contractor responsible on a continuing basis for the environmental care and maintenance and ultimate closure reclamation of the former UKHM mineral rights. It provided that ERDC share the responsibility for the development of the ultimate closure reclamation plan with the Government of Canada, for which it would receive fees of 65% of agreed commercial contractor rates, and this plan development is currently ongoing. Upon acceptance and regulatory approval, the closure reclamation plan will be implemented by ERDC at full agreed contractor rates. During the period required to develop the plan and until the closure plan is executed, ERDC is also responsible for carrying out the environmental care and maintenance at various sites within the UKHM mineral rights, for a fixed annual fee adjusted each year for certain operating and inflationary factors and determined on a site-by-site basis. Under the Subsidiary Agreement, the portion of the annual fee amount so determined which was billable by ERDC in respect of each site reduced by 15% each year until all site-specific care and maintenance activities were replaced by closure reclamation activities; provided however that should a closure reclamation plan be prepared but not accepted and approved, the portion of annual fees billable by ERDC would revert to 85% until the Subsidiary Agreement was either amended or terminated. ERDC receives agreed commercial contractor rates when retained by government to provide environmental services in the Keno Hill District outside the scope of care and maintenance and closure reclamation planning under the Subsidiary Agreement.

In July 2013, the Corporation executed an amended and restated Subsidiary Agreement, the ARSA, with the Government of Canada. Recognizing that developing the closure reclamation plan is more complicated than originally anticipated, the ARSA provides for the Government of Canada to contribute a higher proportion of closure plan development costs than provided for under the Subsidiary Agreement, retroactive to 2009. As a result, included in revenues for AEG for the year ended December 31, 2013 is \$1,983,000 in retroactive fees. Going forward, ERDC will receive 95% of agreed commercial contractor rates for ongoing development of the closure reclamation plan. Furthermore, with respect to care and maintenance activity during the closure reclamation planning phase, the original reducing fee scale is replaced by a fixed fee of \$850,000 per year, representing approximately 50% of estimated fully-billable care and maintenance fees. As a result, included in AEG 2013 cost of sales is an \$850,000 reduction in the Corporation's environmental services contract loss provision.

Other Subsidiary Agreement terms unchanged by the ARSA include that ERDC is required to pay into a separate reclamation trust a 1.5% net smelter return royalty, to an aggregate maximum of \$4 million for all production units, from any future production from the former UKHM mineral rights, commencing once earnings from mining before interest, taxes and depreciation exceed actual exploration costs, to a maximum of \$6.2 million, plus actual development and construction capital. That commencement threshold was achieved during the year ended December 31, 2013, and as at December 31, 2015 a total of \$37,000 in such royalties had been paid. Additionally, a portion of any future proceeds from sales of the acquired UKHM assets must also be paid into the separate reclamation trust. Also substantially unchanged by the ARSA are the indemnification of pre-existing conditions and the right to bring any mine into production on the former UKHM mineral rights. The

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rights of the Government of Canada under the Subsidiary Agreement and the ARSA are supported by a general security agreement over all of the assets of ERDC.

The ARSA can be terminated at ERDC's election should a closure reclamation plan be prepared but not accepted and approved, and at the Governments' election should ERDC be declared in default under the ARSA.

(b) Mining Operations

The Corporation's mining operations reflected production from one mine, Bellekeno, a primary silver mine with lead, zinc and gold by-products. During the second quarter of 2013, both the Lucky Queen and Onek properties were reclassified from exploration and evaluation assets to mining operations assets as a result of the receipt of remaining operating permits, though neither property has as yet been placed into production.

From September 2013, Bellekeno mining operations have been suspended in light of a sharply reduced silver price environment.

Keno Hill Royalty Encumbrances

As noted above, under the Subsidiary Agreement and unchanged by the ARSA, the former UKHM mineral rights are subject to a 1.5% net smelter return royalty, to an aggregate maximum of \$4 million for all production units. Certain of the Corporation's non-UKHM mineral rights located within or proximal to the McQuesten property are subject to a net smelter return royalty ranging from 0.5% to 2%. Certain other of the non-UKHM mineral rights located within the McQuesten property are subject to a separate net smelter return royalty of 2% under which the Corporation makes an annual advance royalty payment of \$20,000 per year. A limited number of the Corporation's non-UKHM mineral rights located throughout the remainder of the Keno Hill District are subject to net smelter return royalties ranging from 1% to 1.5%.

12. Impairment

The carrying amounts of non-current non-financial assets are reviewed and evaluated for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. Non-current non-financial assets include property, plant, equipment, mineral properties and finite-life intangible assets. If the recoverable amount is less than the carrying amount of the asset, an impairment loss is recognized and the asset is written down to recoverable value. During the year ended December 31, 2015, the carrying amounts of the Corporation's net assets were assessed on key assumptions and no further impairment was identified. During the years ended December 31, 2014 and 2013, the carrying amount of the Corporation's net assets exceeded its market capitalization, which was considered an indicator of potential impairment of the carrying amount of its non-current non-financial assets. In addition, metal prices have been volatile and silver has experienced a significant decline through these periods. In 2014 silver prices decreased from a high of \$22.05 per ounce to a low of \$15.97 per ounce. As a result, at both December 31, 2014 and June 30, 2013, the Corporation carried out a review of the carrying amounts of the non-current non-financial assets in its mining operations segment, which segment has been determined to be a CGU for this purpose. For the purpose of the impairment tests, the Flame & Moth exploration property was combined with the mining operations assets as this is an integral part of the current mine plan.

In carrying out these reviews, the Corporation was required to make significant judgements, including with respect to the allocation of assets to the mining operations CGU, as well as the selection and application of appropriate valuation methods. The Corporation was also required to make significant estimates and assumptions, including with respect to mine plan tonnages and grades, capital and operating costs, future commodity prices, foreign currency exchange rates, discount rates and net asset value multiples. By their nature, such estimates and assumptions are subject to significant uncertainty.

Recoverable amounts were determined based on estimated fair value less cost of disposal ("FVLCD"). FVLCD for the mining operations CGU was determined based on the net present value of life-of-mine after-tax future cash flows expected to be generated within that unit. Factors were also applied for the expected

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benefit of potential operating cost optimizations. This estimate of FVLCD is categorized as Level 3 in the fair value hierarchy (see note 3(q)). The projected cash flows are based on the following key assumptions:

- Total estimated production is over a 5.75 year mine life using all mineral resources that existed at December 31, 2014;
- Consensus metal prices and consensus foreign exchange rates;
- US\$20,000,000 payment is made to Silver Wheaton under the June 16, 2014 amended silver streaming agreement (see note 17);
- Average silver grades of 754g/t;
- Operating costs estimated at \$255 per tonne milled;
- Total development and sustaining costs estimated at approximately \$73 million over life of mine; and
- Discount rate of 8%

Consensus metal and foreign exchange rate estimates for December 31, 2014 are summarized as follows:

	2016	2017	2018	2019	Long-term
Silver prices (US\$/oz)	\$ 16.75	\$ 17.50	\$ 18.00	\$ 19.50	\$ 20.00
Gold prices (US\$/oz)	\$ 1,225	\$ 1,250	\$ 1,250	\$ 1,290	\$ 1,300
Lead prices (US\$/oz)	\$ 1.00	\$ 1.04	\$ 1.05	\$ 0.94	\$ 0.94
Zinc prices (US\$/oz)	\$ 1.08	\$ 1.15	\$ 1.18	\$ 1.00	\$ 1.00
Foreign exchange rates (USD/CAD)	\$ 0.85	\$ 0.85	\$ 0.85	\$ 0.85	\$ 0.85

Based on the results of its review, the Corporation recognized an impairment loss at December 31, 2014 totaling \$22,921,000 (June 30, 2013 - \$55,341,000), attributed as follows:

Reporting Segment	Impairment Loss December 31, 2014 ¹	Impairment Loss June 30, 2013
Mineral properties:		
Bellekeno	\$ 9,844	\$ 20,182
Lucky Queen	7,250	9,145
Onek	999	22,513
Total	18,093	51,840
Property, plant and equipment:		
Ore processing mill	3,927	2,628
Heavy machinery and equipment	438	483
Camp, roads and other site	463	390
Total	4,828	3,501
Total impairment loss	\$ 22,921	\$ 55,341

1) Impairment loss was prorated over the mining assets based on book value

The non-current non-financial assets in the mining operations segment were written down to their recoverable amount. Consequently, any significant negative change in the key assumptions made in determining the recoverable amount could result in an additional impairment loss.

For December 31, 2014, sensitivities were carried out on the key assumptions used in the discounted cash flow model. Prior to the impairment charge, the carrying value of the CGU at December 31, 2014 was approximately \$60,500,000. The change to the pre-tax impairment charge as a result of movements in the underlying key assumptions would be:

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	5% Change	10% Change
Average metal price	\$ 15,005	\$ 31,362
Average cost per tonne	\$ 7,136	\$ 14,272
Foreign exchange rates	\$ 11,798	\$ 22,523
	1% Change	2% Change
Discount rate applied	\$ 3,495	\$ 6,758

In addition, management conducted a review of its Exploration and evaluation assets, which are each separately assessed for impairment, and are not allocated by the Corporation to a CGU for impairment assessment purposes except the Flame & Moth mineral property. As at December 31, 2014, and pursuant to IFRS 6 *Exploration For and Evaluation of Mineral Resources*, indicators were identified which suggested the carrying amounts of certain exploration and evaluation assets may exceed their recoverable amount. Included in Other Keno Hill Properties were a number of exploration properties that the Corporation did not have any near-term plans to conduct exploration activities. As a result exploration and evaluation properties were impaired by \$7,010,000. As at December 31, 2013 no impairment indicators were identified.

13. Accounts payable and accrued liabilities

	December 31 2015	December 31 2014
Trade payables	\$ 923	\$ 1,287
Accrued liabilities and other	1,220	1,111
	\$ 2,143	\$ 2,398

14. Environmental Services Contract Loss Provision

	December 31 2015	December 31 2014
Balance – beginning of year	\$ 263	\$ 112
Increase (reduction) due to changes in loss estimation	122	35
Increase (reduction) due to current period loss realization	(58)	116
Balance – end of year	327	263
Less: current portion	(116)	(59)
	\$ 211	\$ 204

As described in note 11, ERDC is responsible for carrying out environmental care and maintenance at various sites within the former UKHM mineral rights until acceptance and regulatory approval are obtained for the closure reclamation plan, for a fixed annual fee adjusted each year for certain operating and inflationary factors and determined on a site-by-site basis. Under the original Subsidiary Agreement, the portion of the site-by-site adjusted annual fee determination basis which was billable by ERDC reduced by 15% each year until all site-specific care and maintenance activities were replaced by closure reclamation

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activities. As a result, an environmental services contract loss provision was previously recognized to reflect aggregate future losses estimated to be realized with respect to such care and maintenance activities.

During the continual review of this contract loss provision estimate and based on ongoing discussions with Government regarding the process and timing that will be required to obtain acceptance and regulatory approval of the closure reclamation plan, management estimated the date by which the care and maintenance phase will end to be July 2018.

All changes in the contract loss provision are recorded within AEG cost of sales for the period in which they occur.

15. Silver Streaming Interest

	December 31 2015	December 31 2014
Balance – beginning of year	\$ 18,118	\$ 18,190
Amount recognized in mine site care and maintenance	-	(72)
Balance – end of year	\$ 18,118	\$ 18,118

On October 2, 2008 (with subsequent amendments on October 20, 2008, December 10, 2008, December 22, 2009, March 31, 2010, January 15, 2013, March 11, 2014 and June 16, 2014), the Corporation entered into a silver streaming interest agreement (the "Silver Streaming Agreement") with Silver Wheaton under which Silver Wheaton will receive 25% of the life of mine silver produced by the Corporation from its Keno Hill Silver District properties. The Silver Streaming Agreement anticipated that the initial silver deliveries would come from the Bellekeno property. Under the Silver Streaming Agreement, the Corporation received up-front deposit payments from Silver Wheaton totaling US\$50 million, and received further payments of the lesser of US \$3.90 (increasing by 1% per annum after the third year of full production) and the prevailing market price for each ounce of payable silver delivered, if as and when delivered. After the initial 40 year term of the streaming interest, the Corporation is required to refund the balance of any advance payments received and not yet reduced through silver deliveries. The Corporation would also be required to refund the balance of advance payments received and not yet reduced if Silver Wheaton exercised its right to terminate the streaming interest in an event of default by the Corporation. As of September 2013, Bellekeno mining operations were suspended in light of a sharply reduced silver price environment.

On June 16, 2014, Alexco entered into an agreement with Silver Wheaton to amend the original Silver Streaming Agreement such that, upon payment of US\$20 million to Silver Wheaton on or before December 31, 2014 (the "Deadline"), the fixed US\$3.90 per ounce silver streaming production payment will be replaced with a variable production payment based on the spot price of silver. The variable production payment was defined by a pricing curve with an apex at US\$19.45 spot silver price where Silver Wheaton would make a production payment to Alexco of US\$18.00 per ounce of silver delivered; that payment decreasing by US\$0.91 per ounce for each US\$1.00 increase or decrease in silver price, returning to a fixed US\$3.90 per ounce for spot silver prices of US\$35.00 per ounce and higher. Upon payment of the US\$20 million to Silver Wheaton, the pricing amendment would be effective for a 10 year term from the time mining production recommences in the district, with an option for Alexco to extend the amendment for another 5 or 10 years for an additional US\$10 million or US\$20 million, respectively. In addition, the Silver Wheaton area of interest was expanded to include additional currently owned and future acquired properties of the Corporation within one kilometer of the Corporation's existing holdings in the Keno Hill District.

The Deadline was initially extended until December 31, 2015 and Silver Wheaton subsequently confirmed that Alexco has the right, by written notice delivered at any time up to December 31, 2016, to extend the Deadline to December 31, 2016. If the Deadline is extended by Alexco and the US\$20 million payment is made to Silver Wheaton on or before the Deadline, the original amount advanced will be deemed reduced from US\$50 million to US\$30 million and the then-current balance of the advance will be reduced to nil.

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Effective on signing the June 16, 2014 amending agreement, the date for completion of the 400 tonne per day mine and mill completion test date was extended to December 31, 2017. If the Deadline is extended by Alexco and the US\$20 million payment is made to Silver Wheaton on or before the Deadline, the amendments provide that the deadline for this completion test would be further extended to 24 months following the recommencement date. In addition, pursuant to the June 16, 2014 amending agreement, the Silver Wheaton area of interest was expanded to include additional Alexco currently owned and future acquired properties within one kilometer of existing Alexco holdings in the Keno Hill District.

The Corporation is not obligated to make the US\$20 million payment to Silver Wheaton under the June 16, 2014 amending agreement. However, in order for certain of the amendments to take effect (including the amendment to the fixed price), the Corporation will need to make this payment. The Corporation will require additional financing to make this payment and there is no assurance that additional financing can be obtained by December 31, 2016 (or such later date as the parties may agree). If the Corporation is unable to, or chooses not to, make this US\$20 million payment, the fixed price payment terms of the original silver purchase agreement will remain in effect and, to satisfy the completion test under the Silver Purchase Agreement, the Corporation will need to recommence operations on the KHSD Property and operate the mine and mill at 400 tonnes per day on or before December 31, 2017. If the completion test is not satisfied by December 31, 2017, the Corporation would be required to pay a capacity related refund to Silver Wheaton in the maximum amount of US\$9.75 million.

16. Decommissioning and Rehabilitation Provision

	December 31 2015	December 31 2014
Balance – beginning of year	\$ 4,151	\$ 3,803
Increase due to re-estimation	904	306
Accretion expense, included in finance costs	56	42
Balance – end of year	\$ 5,111	\$ 4,151

The Corporation's decommissioning and rehabilitation provision consists of costs expected to be required in respect of future reclamation and closure activities at the end of the life of the Bellekeno, Flame & Moth, Lucky Queen and Onek mines. These activities include water treatment, land rehabilitation, ongoing care and maintenance and other reclamation and closure related requirements. The Company filed an updated Reclamation and Closure Plan for its current operations and the future development of the Flame & Moth deposit. As a result, the Quartz Mining License ("QML") requires that Alexco increase its posted security from \$4.2 million to \$6.3 million. The \$4.2 million currently posted is included in the Corporation's non-current restricted cash and deposits. The Yukon Mine Site Reclamation and Closure Policy Financial Guidelines provide several forms of acceptable security, which includes pledging assets, bank letters of credit, surety bonds and insurance.

The total undiscounted amount of the estimated cash flows required to settle the decommissioning and rehabilitation provision is estimated to be \$6,178,000 (2014 – \$4,780,000), which expenditures are expected to be incurred substantially over the course of the next 19 years. In determining the carrying value of the decommissioning and rehabilitation provision as at December 31, 2015, the Corporation has used a risk-free discount rate of 1.87% (2014 – 2.11%) and an inflation rate of 2.0% (2014 – 2.0%).

17. Shareholders' Equity

The following share transaction took place in the year ended December 31, 2015:

- a) Effective December 8, 2015, the Corporation completed a bought deal financing and issued 5,662,500 flow-through common shares on a private placement basis at a price of \$0.53 per share for aggregate gross proceeds of \$3,001,125. Of the gross proceeds, \$2,627,000 has been attributed to issued common shares, and the remaining \$311,000 has been attributed to the sale of

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tax benefits. The underwriter to the financing received a cash fee of 6.5% of gross proceeds plus 368,063 compensation warrants, each warrant exercisable for one common share of the Corporation at an exercise price of \$0.53 per share at any time until December 8, 2017. The fair values of the compensation warrants were estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.52% per annum, an expected life equal to the term of the warrants, an expected volatility of 73% and no expected dividends. Net proceeds from the issuance were \$2,713,000, after issuance costs comprised of the agent's commission of \$195,000, and other issuance costs of \$93,000.

- b) Effective December 8, 2015, the Corporation issued 2,000,000 common shares on a private placement basis at a price of \$0.48 per share for aggregate gross proceeds of \$960,000. Net proceeds from the issuance were \$902,000, after issuance costs comprised of the agent's commission of \$57,600.
- c) 94,624 shares were issued from treasury on the vesting of restricted share units.

The following share transaction took place in the year ended December 31, 2014:

- a) In August 2014, the Corporation issued a total of 7,015,000 units at a price of \$1.15 per unit in a bought deal financing pursuant to a short form prospectus. Each unit was comprised of one common share and one half of one common share purchase warrant, with each full warrant entitling the holder to acquire an additional common share at a price of \$1.40 per share at any time until August 21, 2016. The underwriter to the financing received a cash fee of 6.5% of the gross proceeds plus 455,975 compensation warrants, each warrant exercisable for one common share of the Corporation at an exercise price of \$1.35 per share at any time until August 21, 2016. The net proceeds of the financing were \$7,007,000 after the underwriter's fees, including the fair value of the compensation warrants, and other issuance costs of \$364,000. The fair values of the unit warrants and the compensation warrants were estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 1.1% per annum, an expected life equal to the term of the warrants, an expected volatility of 75% and no expected dividends. A deferred income tax benefit of \$266,000 was recorded on the transaction.

The following share transaction took place in the year ended December 31, 2013:

- a) Effective April 23, 2013, the Corporation issued 2,100,000 flow-through common shares on a private placement basis at a price of \$3.35 per share for aggregate gross proceeds of \$7,035,000. Of the gross proceeds, \$4,830,000 has been attributed to issued common shares, and the remaining \$2,205,000 has been attributed to the sale of tax benefits. Net proceeds from the issuance were \$6,649,000, after issuance costs comprised of the agent's commission of \$472,000 and other issuance costs of \$80,000, less the deferred income tax benefit of such costs of \$166,000.

18. Share-Based Compensation

Incentive Stock Options

At the Corporation's annual general meeting held June 10, 2014, the shareholders approved the amendment of the stock option plan from a fixed to a rolling plan, under which the aggregate number of common shares issuable on exercise of stock options cannot exceed 9% of the number of common shares issued and outstanding. Generally, stock options granted have a maximum term of five years, vesting one third upon granting, one third after one year and one third after two years and exercise price determined by the directors. The exercise price may not be less than the closing quoted price of the Corporation's common shares traded through the facilities of the exchange on which the Company's common shares are listed. As at December 31, 2015, a total of 4,444,497 stock options were outstanding under the plan, and a total of 2,516,645 options remained available for granting.

The changes in incentive share options outstanding are summarized as follows:

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	Weighted average exercise price	Number of shares issued or issuable on exercise	Amount
Balance – December 31, 2014	\$4.36	3,619,830	\$ 7,712
Stock options granted	\$0.60	1,341,000	-
Share based compensation expense	-	-	428
Options forfeited or expired	\$4.52	(516,333)	(1,234)
Balance – December 31, 2015	\$3.20	4,444,497	\$ 6,906
Balance – December 31, 2013	\$5.16	4,035,663	\$ 10,096
Stock options granted	\$1.88	752,000	-
Share based compensation expense	-	-	704
Options forfeited or expired	\$5.54	(1,167,833)	(3,088)
Balance – December 31, 2014	\$4.36	3,619,830	\$ 7,712
Balance – December 31, 2012	\$5.07	4,634,995	\$ 11,061
Stock options granted	\$4.16	641,500	-
Share based compensation expense	-	-	1,477
Options exercised	\$3.08	(45,000)	(65)
Options forfeited or expired	\$4.30	(1,195,832)	(2,377)
Balance – December 31, 2013	\$5.16	4,035,663	\$ 10,096

During the year ended December 31, 2015, the fair value of options at the date of grant was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.58% (2014 – 1.4%; 2013 – 1.4%) per annum, an expected life of options of 4 years (2014 – 4 years; 2013 – 4 years), an expected volatility of 67% based on historical volatility (2014 – 65%; 2013 – 70%), an expected forfeiture rate of 3% (2014 – 4%; 2013 – 4%) and no expected dividends (2014 – nil; 2013 - nil).

Incentive share options outstanding and exercisable at December 31, 2015 are summarized as follows:

Exercise Price	Options Outstanding			Options Exercisable	
	Number of Shares Issuable on Exercise	Average Remaining Life (Years)	Average Exercise Price	Number of Shares Issuable on Exercise	Average Exercise Price
\$0.60	35,000	3.96	\$ 0.60	-	\$ 0.60
\$0.60	1,331,000	4.12	\$ 0.60	443,667	\$ 0.60
\$1.65	292,500	0.14	\$ 1.65	292,500	\$ 1.65
\$1.94	605,500	3.12	\$ 1.94	403,667	\$ 1.94
\$3.45	677,997	1.22	\$ 3.45	677,997	\$ 3.45
\$4.16	396,000	2.06	\$ 4.16	396,000	\$ 4.16
\$6.92	507,000	1.07	\$ 6.92	507,000	\$ 6.92
\$7.10	596,000	2.04	\$ 7.10	596,000	\$ 7.10
\$8.13	3,500	2.36	\$ 8.13	3,500	\$ 8.13
	4,444,497	2.47	\$ 3.20	3,320,331	\$ 4.00

The weighted average share price at the date of exercise for options exercised during the year ended December 31, 2013 was \$4.22.

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During the year ended December 31, 2015, the Corporation recorded total share-based compensation expense of \$428,000 (2014 – \$704,000; 2013 - \$1,473,000) related to incentive share options, of which \$68,000 (2014 – \$100,000; 2013 - \$213,000) is recorded to mineral properties, \$360,000 (2014 – \$604,000; 2013 - \$1,311,000) has been charged to income, and the balance reflects the changes in share-based compensation expense capitalized within opening and ending ore and concentrate inventories for the period.

Subsequent to December 31, 2015, a further 1,787,500 incentive stock options have been granted with an exercise price of \$0.84, under the Corporation's incentive stock option plan, another 292,500 have expired unexercised and 130,000 have been forfeited.

Restricted Share Units (“RSUs”)

On December 14, 2012, the Corporation initiated a long-term incentive plan which provides for the issuance of RSUs in such amounts as approved by the Corporation's Board of Directors. The RSU plan is considered an equity-settled share-based compensation arrangement, and is administered by a trustee. Each RSU entitles the participant to receive one common share of the Corporation subject to vesting criteria, with RSU grants vesting one third per year over a three year period. These RSUs are settled in common shares of the Corporation purchased by the plan trustee through the open market at the time of granting, using funds provided by the Corporation. The Corporation is required under IFRS to consolidate the plan trust, and the outstanding number of common shares reflected in these financial statements is reduced by the number of shares held by the plan trustee for future settlements.

At the Corporation's annual general meeting held June 10, 2014, the shareholders approved the amendment of the RSU plan whereby RSUs granted subsequent to the date of amendment can be settled in common shares of the Corporation issued from treasury, with the maximum grantable number of such RSUs fixed at 650,000. RSUs granted prior to the date of amendment can be settled only with common shares held by the plan trust and purchased through the open market at the time of granting, and not with shares issued from treasury, and do not reduce the 650,000 RSU fixed limit.

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The changes in RSUs outstanding are summarized as follows:

	Number of shares issued or issuable on vesting	Amount
Balance – December 31, 2014	507,192	\$ 807
RSUs granted	135,000	-
RSUs forfeited	(53,332)	-
Share-based compensation expense recognized	-	285
RSUs vested	(227,957)	(620)
Balance – December 31, 2015	360,903	\$ 472
Balance – December 31, 2013	401,665	\$ 996
RSUs granted	283,860	-
RSUs forfeited	(30,000)	-
Share-based compensation expense recognized	-	434
RSUs vested	(148,333)	(623)
Balance – December 31, 2014	507,192	\$ 807
Balance – December 31, 2012	130,000	\$ 52
RSUs granted	315,000	-
Share-based compensation expense recognized	-	1,108
RSUs vested	(43,335)	(164)
Balance – December 31, 2013	401,665	\$ 996

A total of 135,000 RSUs were granted in 2015, with total grant-date fair value determined to be \$81,000. Included in general and administrative expenses for the year ended December 31, 2015 is share-based compensation expense of \$285,000 (2014 – \$434,000; 2013 - \$1,108,000) related to RSU awards. As at December 31, 2015, the plan trust held 29,997 common shares of the Corporation for future settlement of granted RSUs.

As of December 31, 2015, a total of 335,531 RSUs were granted under the amended RSU plan and a total of 314,469 RSUs remained available for granting.

Subsequent to December 31, 2015, a total of 295,000 RSUs have been granted under the amended RSU plan, with one third vesting one year after the date of granting, one third vesting two years after the date of granting, and the remaining third vesting three years after the date of granting. A total of 19,469 RSUs remain available for granting under the amended RSU plan.

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19. Cost of Sales

The Corporation recorded cost of sales for the years ended December 31, 2015, 2014 and 2013 as follows:

	2015	2014	2013
Mining operations –			
Inventoried costs –			
Direct production costs	\$ -	\$ -	\$ 26,879
Depreciation, depletion and share-based compensation	-	-	17,835
Inventory write-down	-	-	886
Subsidiary Agreement royalty cost	-	-	109
Silver streaming interest –			
Market price of deliverable silver, net of amount receivable on delivery	-	-	7,326
Silver streaming interest amount recognized	-	-	(9,892)
	-	-	43,143
Environmental services –			
Direct service costs	11,132	9,730	7,314
Depreciation	279	307	156
	11,411	10,037	7,470
	\$ 11,411	\$ 10,037	\$ 50,613

20. General and Administrative Expenses

The Corporation recorded general and administrative expenses for the years ended December 31, 2015, 2014 and 2013 as follows:

	2015	2014	2013
General and administrative expenses			
Depreciation	\$ 143	\$ 113	\$ 119
Amortization of intangible assets	77	43	114
Business development and investor relations	535	570	628
Office, operating and non-operating overheads	1,747	1,624	2,140
Professional	679	685	1,085
Regulatory	146	185	193
Salaries and contractors	3,627	4,029	5,316
Share-based compensation	622	986	2,060
Write-off of receivables	643	-	366
Travel	255	231	450
	\$ 8,474	\$ 8,466	\$ 12,471

21. Mine Site Care and Maintenance

The Corporation recorded mine site care and maintenance expenses for the years ended December 31, 2015, 2014 and 2013 as follows:

	2015	2014	2013
Mine site care and maintenance			
Depreciation	\$ 1,746	\$ 2,486	\$ 643
Office, operating and non-operating overheads	404	530	260
Other expenses	201	114	307
	\$ 2,351	\$ 3,130	\$ 1,210

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22. Income Tax Expense

The major components of income tax expense for the years ended December 31, 2015, 2014 and 2013 are as follows:

(a) The provision for income taxes consists of:

	2015	2014	2013
Current			
Income tax	\$ -	\$ -	\$ -
Yukon mineral tax	-	-	220
US income tax	(24)	18	11
Total current tax provision	(24)	18	231
Deferred			
Income tax	(1,083)	(2,614)	(10,830)
Yukon mineral tax	-	(240)	(1,030)
Total deferred tax recovery	(1,083)	(2,854)	(11,860)
Total income tax recovery	\$ (1,107)	\$ (2,836)	\$ (11,629)

(b) The income tax provision differs from the amount that would result from applying the Canadian federal and provincial tax rate to income before taxes. These differences result from the following items:

	2015	2014	2013
Accounting loss before taxes	\$ (6,616)	\$ (35,608)	\$ (62,079)
Federal and provincial income tax rate of 26.00% (2014 – 26%)	(1,720)	(9,258)	(15,960)
Non-deductible permanent differences	48	16	464
Differences in foreign exchange rates	(75)	(6)	(90)
Effect of difference in tax rates	(230)	(1,419)	(2,544)
Change in deferred tax asset not recognized	561	8,035	7,411
Yukon mineral tax	-	(243)	(804)
Change in estimate	83	36	(105)
Other	226	3	(1)
	613	6,422	4,331
Recovery of income taxes	\$ (1,107)	\$ (2,836)	\$ (11,629)

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- (c) The movement in deferred tax assets and liabilities during the year by type of temporary difference, without taking into consideration the offsetting balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities	Mineral Property Interest	Inventory	Property, Plant and Equipment	Yukon Mining Tax	Other	Total
December 31, 2013	\$ (10,517)	\$ (126)	\$ (1,940)	\$ (244)	\$ (263)	\$ (13,090)
Credited (charged) to the income statement	(1,598)	-	(381)	244	(111)	(1,846)
Charged (credited) to OCI	-	-	-	-	36	36
December 31, 2014	\$ (12,115)	\$ (126)	\$ (2,321)	\$ -	\$ (338)	\$ (14,900)
Credited (charged) to the income statement	7,403	-	956	-	(881)	7,478
December 31, 2015	\$ (4,712)	\$ (126)	\$ (1,365)	\$ -	\$ (1,219)	\$ (7,422)

Deferred tax assets	Mineral Property Interest	Loss Carry Forward	Property, Plant and Equipment	Decommissioning and rehabilitation provision	Other	Total
December 31, 2013	\$ 3,621	\$ 4,849	\$ 451	\$ 1,157	\$ 1,265	\$ 11,343
Credited (charged) to the income statement	2,721	451	(13)	80	(331)	2,908
Charged directly to equity	-	-	-	-	266	266
December 31, 2014	\$ 5,221	\$ 5,852	\$ 432	\$ 1,221	\$ 763	\$ 13,489
Credited (charged) to the income statement	(4,629)	(3,095)	(116)	312	677	(6,851)
December 31, 2015	\$ 592	\$ 2,757	\$ 316	\$ 1,533	\$ 1,440	\$ 6,638

Net deferred tax liabilities

December 31, 2014	\$ (1,411)
Credited (charged) to the income statement	1,083
Charged (credited) to OCI	(456)
December 31, 2015	\$ (784)

- (d) At December 31, 2015, the Corporation has unrecognized tax attributes, noted below, that are available to offset future taxable income. However, these tax attributes relate to capital items in nature which can only be offset capital gain or relate to subsidiaries that have a history of losses; therefore may not be used to offset taxable income.

Unused non-capital losses	\$ 33,049
Mineral property interest	26,454
Other	3,174
	\$ 62,677

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As at December 31, 2015, the Corporation has available non-capital losses for income tax purposes in Canada and the US which are available to be carried forward to reduce taxable income in future years and for which no deferred income tax asset has been recognized, and which expire as follows:

	Canada	US	Total
2028	1,792	-	1,792
2029	4,338	372	4,710
2030	3,397	1,014	4,411
2031	421	2,217	2,638
2032	316	72	388
2033	1,896	-	1,896
2034	10,079	-	10,079
2035	6,136	999	7,135
	\$ 28,375	\$ 4,674	\$ 33,049

23. Loss Per Share

The following table sets forth the computation of basic and diluted loss per share for the years ended December 31, 2015, 2014 and 2013:

	2015	2014	2013
Numerator			
Net loss for the year	\$ (5,509)	\$ (32,772)	\$ (50,450)
Denominator			
For basic – weighted average number of shares outstanding	70,092,259	65,100,203	61,968,376
Effect of dilutive securities – incentive share options	-	-	-
For diluted – adjusted weighted average number of shares outstanding	70,092,259	65,100,203	61,968,376
Loss Per Share			
Basic	\$(0.08)	\$(0.50)	\$(0.81)
Diluted	\$(0.08)	\$(0.50)	\$(0.81)

Incentive stock options to acquire 4,444,497 shares (2014 – 3,585,000) were outstanding at December 31, 2015 but were not included in the computation of diluted earnings per share for the year then ended because to do so would have been anti-dilutive given the Corporation recorded a net loss in that year.

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24. Financial Instruments

Financial Assets and Liabilities

Information regarding the carrying amounts of the Corporation's financial assets and liabilities is summarized as follows:

	Fair Value Hierarchy Classification	2015	2014
Available for sale –			
Long-term investment in common shares	Level 1	\$ 386	\$ 597
		\$ 386	\$ 597

The carrying amounts of all of the Corporation's financial assets and liabilities reasonably approximate their fair values.

Financial Instrument Risk Exposure

The Corporation's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk. Risk management is carried out by management under policies approved by the Board of Directors. Management identifies and evaluates the financial risks in co-operation with the Corporation's operating units. The Corporation's overall risk management program seeks to minimize potential adverse effects on the Corporation's financial performance, in the context of its general capital management objectives as further described in note 25.

Currency Risk

Substantially all of the Corporation's property, plant and equipment and mineral properties are located in Canada; all of its mining operations occur in Canada; and a significant majority of its environmental services revenues are earned in Canada. However, when commercial production commenced at the Bellekeno mine, the Corporation's exposure to US dollar currency risk significantly increased as sales of concentrate were effected in US dollars. In addition, a portion of its environmental services revenues, and receivables arising therefrom, are also denominated in US dollars. As well, while a significant majority of the Corporation's operating costs are denominated in Canadian dollars, it does have some exposure to costs, as some accounts payable and accrued liabilities are denominated in US dollars. The Corporation is exposed to currency risk at the balance sheet date through the following financial assets and liabilities, which are denominated in US dollars:

	December 31 2015	December 31 2014
Cash and demand deposits	\$ 4,560	\$ 6,340
Accounts and other receivable	589	1,354
Accounts payable and accrued liabilities	(477)	(421)
Net exposure	\$ 4,672	\$ 7,273

Based on the above net exposure at December 31, 2015, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an approximately \$467,000 decrease or increase respectively in both net and comprehensive loss (2014 – \$727,000). The Corporation has not employed any currency hedging programs during the current period.

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Credit Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its obligations. The Corporation's maximum exposure to credit risk at the balance sheet date under its financial instruments is summarized as follows:

	December 31 2015	December 31 2014
Trade receivables, net of provision –		
Currently due	\$ 992	\$ 1,171
Past due by 90 days or less, not impaired	872	1,224
Past due by greater than 90 days, not impaired	5	48
	1,869	2,443
Cash	5,350	2,526
Demand deposits	2,813	6,113
Term deposits	8,960	10,215
	\$ 18,992	\$ 21,297

Substantially all of the Corporation's cash, demand deposits and term deposits are held with major financial institutions in Canada, and management believes the exposure to credit risk with respect to such institutions is not significant. Those financial assets that potentially subject the Corporation to credit risk are primarily receivables. Management actively monitors the Corporation's exposure to credit risk under its financial instruments, particularly with respect to receivables. The Corporation considers the risk of material loss to be significantly mitigated due to the financial strength of the parties from whom the receivables are due, including with respect to trade accounts receivable as the Corporation's major customers include government organizations as well as substantial corporate entities. As at December 31, 2015, trade receivables are recorded net of a recoverability provision of \$575,000 (2014 – \$479,000).

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations associated with financial liabilities. The Corporation has a planning and budgeting process in place by which it anticipates and determines the funds required to support its normal operating requirements as well as the growth and development of its mining projects. The Corporation coordinates this planning and budgeting process with its financing activities through the capital management process described in note 25. The Corporation's financial liabilities are comprised of its accounts payable and accrued liabilities, the contractual maturities of which at the balance sheet date are summarized as follows:

	December 31 2015	December 31 2014
Accounts payable and accrued liabilities with contractual maturities –		
Within 90 days or less	\$ 2,143	\$ 2,375
In later than 90 days, not later than one year	-	-
	\$ 2,143	\$ 2,375

25. Management of Capital

The capital managed by the Corporation includes the components of shareholders' equity as described in the consolidated statements of shareholders' equity. The Corporation is not subject to externally imposed capital requirements.

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The Corporation's objectives of capital management are to create long-term value and economic returns for its shareholders. It does this by seeking to maximize the availability of finance to fund the growth and development of its mining projects, and to support the working capital required to maintain its ability to continue as a going concern. The Corporation manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its assets, seeking to limit shareholder dilution and optimize its cost of capital while maintaining an acceptable level of risk. To maintain or adjust its capital structure, the Corporation considers all sources of finance reasonably available to it, including but not limited to issuance of new capital, issuance of new debt and the sale of assets in whole or in part, including mineral property interests. The Corporation's overall strategy with respect to management of capital at December 31, 2015 remains fundamentally unchanged from the year ended December 31, 2014.

26. Supplemental Cash Flow Information

Supplemental cash flow information with respect to the years ended December 31, 2015 and 2014 is summarized as follows:

	2015	2014
Operating Cash Flows Arising From Interest and Taxes		
Interest received	\$ 103	\$ 111
Non-Cash Investing and Financing Transactions		
Capitalization of share-based compensation to mineral properties	\$ 68	\$ 100
Capitalization of depreciation to mineral properties	\$ 153	\$ 395
Capitalization of re-estimation of decommissioning and rehabilitation provision	\$ 904	\$ 115
Increase (decrease) in non-cash working capital related to:		
Exploration and evaluation properties	\$ 17	\$ (2)
Property, plant and equipment	\$ -	\$ 8

27. Segmented Information

The Corporation had two operating segments during the years ended December 31, 2015, 2014 and 2013, being environmental services carried out through AEG, providing consulting and project management services in respect of environmental permitting and compliance and site remediation and reclamation; and mining operations, including the operating Bellekeno mine, producing silver, lead and zinc in the form of concentrates (suspended in September 2013), as well includes exploration and evaluation activities. The Corporation's executive head office and general corporate administration are included within 'Corporate and other' to reconcile the reportable segments to the consolidated financial statements. Reportable segments are identified based on differences in products, services and business activities. Inter-segment transactions are recorded at amounts that reflect normal third-party terms and conditions, with inter-segment profits eliminated from the cost base of the segment incurring the charge. During the second quarter of 2013, both the Lucky Queen and Onek property assets were transferred from the exploration segment to the mining operations segment, as a result of the receipt of remaining operating permits. Revenue from non-Canadian customers of both operating segments was derived primarily from the United States.

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As at and for the year ended December 31, 2015	Environmental Services	Mining	Corporate and Other	Total
Segment revenues –				
External customers –				
Canadian	\$ 8,611	\$ -	\$ -	\$ 8,611
Non-Canadian	6,051	-	-	6,051
Intersegment	4,797	-	-	4,797
Total segment revenues	19,459	-	-	19,459
Intersegment revenues eliminated on consolidation	(4,797)	-	-	(4,797)
Total revenues as reported	14,662	-	-	14,662
Cost of sales	11,411	-	-	11,411
Depreciation and amortization	124	-	97	221
Share-based compensation	161	-	462	623
Other G&A expenses	3,454	42	4,135	7,631
Other mine site care and maintenance	-	2,351	-	2,351
Foreign exchange (gain) loss	(382)	10	(683)	(1,055)
Investment income	-	-	(101)	(101)
Finance costs	-	56	-	56
Other income	-	-	(14)	(14)
Loss on impaired long term investments	-	-	155	155
Segment income (loss) before taxes	\$ (106)	\$ (2,459)	\$ (4,051)	\$ (6,616)
Total assets	\$ 9,467	\$ 85,968	\$ 7,107	\$ 102,542
As at and for the year ended December 31, 2014	Environmental Services	Mining	Corporate and Other	Total
Segment revenues –				
External customers –				
Canadian	\$ 9,182	\$ -	\$ -	\$ 9,182
Non-Canadian	5,743	361	-	6,104
Intersegment	3,595	-	-	3,595
Total segment revenues	18,520	361	-	18,881
Intersegment revenues eliminated on consolidation	(3,595)	-	-	(3,595)
Total revenues as reported	14,925	361	-	15,286
Cost of sales	10,037	-	-	10,037
Depreciation and amortization	68	-	89	157
Share-based compensation	244	-	742	986
Other G&A expenses	3,168	86	4,069	7,323
Other mine site care and maintenance	-	3,130	-	3,130
Foreign exchange (gain) loss	(323)	436	(773)	(660)
Investment income	(1)	-	(65)	(66)
Finance costs	-	42	-	42
Derivative loss	-	-	14	14
Write-down of mineral properties	-	25,103	-	25,103
Write-down of property, plant and equipment	-	4,828	-	4,828
Segment income (loss) before taxes	\$ 1,732	\$ (33,264)	\$ (4,076)	\$ (35,608)
Total assets	\$ 11,609	\$ 85,115	\$ 8,471	\$ 105,195

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As at and for the year ended December 31, 2013	Environmental Services	Mining	Corporate and Other	Total
Segment revenues –				
External customers –				
Canadian	\$ 10,516	\$ -	\$ -	\$ 10,516
Non-Canadian	5,803	43,114	-	48,917
Intersegment	2,734	-	-	2,734
Total segment revenues	19,053	43,114	-	62,167
Intersegment revenues eliminated on consolidation	(2,734)	-	-	(2,734)
Total revenues as reported	16,319	43,114	-	59,433
Cost of sales	7,470	43,143	-	50,613
Depreciation and amortization	141	-	735	876
Share-based compensation	393	464	1,203	2,060
Other G&A expenses	3,187	2,550	5,008	10,745
Foreign exchange (gain) loss	3	(254)	69	(182)
Investment income	(5)	1	(242)	(246)
Finance costs	-	47	-	47
Derivative loss	-	-	98	98
Write-down of mineral properties	-	51,840	-	51,840
Write-down of property, plant and equipment	-	3,501	-	3,501
Loss on impaired long term investments	-	-	2,160	2,160
Segment income (loss) before taxes	\$ 5,130	\$ (58,178)	\$ (9,031)	\$ (62,079)
Total assets	\$ 12,940	\$ 109,911	\$ 8,362	\$ 131,213

For the 12 month periods ended December 31, 2015, 2014 and 2013, revenue from mining operations was derived as follows from payable metals contained in concentrate:

	2015	2014	2013
Silver	\$ -	\$ 243	\$ 34,668
Lead	-	(18)	10,926
Zinc	-	(3)	2,822
Gold	-	162	525
	-	384	48,941
Smelter treatment and refining charges	-	(23)	(5,827)
Reported mining operations revenue	\$ -	\$ 361	\$ 43,114

28. Related Party Transactions

The Corporation's related parties include its subsidiaries and key management personnel.

(a) Key Management Personnel Compensation

	2015	2014	2013
Salaries and other short-term benefits	\$ 1,831	\$ 1,919	\$ 2,150
Share-based compensation	543	830	1,923
	\$ 2,374	\$ 2,749	\$ 4,073

Key management includes the Corporation's Board of Directors and members of senior management.

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29. Commitments

As at December 31, 2015, the Corporation's contractual obligations are as follows:

- (a) The Corporation has entered into various operating lease contracts for office space, motor vehicles and office equipment. The future minimum payments under these leases are as follows:

2016	317
2017	266
2018	185
Thereafter	57
	<hr/>
	\$ 825

- (b) The Corporation's other contractual obligations, including with respect to capital asset expenditures, totaled approximately \$426,000.
- (c) As a consequence of its commitment to renounce deductible exploration expenditures to the purchasers of flow-through shares (see note 19), the Corporation is required to incur further renounceable exploration expenditures totaling \$2,952,000 by December 31, 2016.

Senior Management

Clynton Nauman, BSc (Hons)
President & Chief Executive Officer

Brad Thrall, BSc, MBA
Executive Vice President & Chief Operating Officer

Michael Clark, CPA, CA
*Chief Financial Officer &
Company Ethics Officer*

Alan McOnie, MSc (Geology), FAusIMM
Vice President, Exploration

James Harrington, MSc
*Sr. Vice President and Chief Technical Officer, Alexco
Environmental Group*

Linda Broughton, B.Eng., M.A.Sc.
Vice President, Projects Alexco Environmental Group

Board of Directors

Michael Winn, *Chairman of the Board*
Terry Krepiakovich, CPA, CA, ICD.D.
Clynton Nauman, B.Sc. (Hons)
Rick Van Nieuwenhuysse, MSc
Richard Zimmer, P.Eng., MBA

Auditors

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