

Allis-Chalmers Energy Inc.
Related Party Transactions Policy

A. Policy Statement

Allis-Chalmers Energy Inc. (the “Company”) recognizes that Related Party Transactions (as defined below) can present potential or actual conflicts of interest and create the appearance that Company decisions are based on considerations other than the best interests of the Company and its stockholders. It is the Company's policy to enter into or ratify Related Party Transactions only when the Board of Directors, acting through the Audit Committee, determines that the Related Party Transaction in question is in, or is not inconsistent with, the best interests of the Company and its stockholders. Therefore, the Company has adopted the procedures set forth below for the review, approval or ratification of Related Party Transactions.

This policy has been approved by the Audit Committee of our Board of Directors (the “Committee”). The Committee will review and may amend this policy from time to time.

B. Related Party Transactions

Except as set forth in Section C below, for the purposes of this policy, a "Related Party Transaction" is a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which the Company (including any of its subsidiaries) was, is or will be a participant and the amount involved exceeds \$120,000, and in which any Related Party had, has or will have a direct or indirect interest.

For purposes of this Policy, a “Related Party” means:

1. any person who is, or at any time since the beginning of the Company’s last fiscal year was, a director or executive officer of the Company or a nominee to become a director of the Company;
2. any person who is known to be the beneficial owner of more than 5% of any class of the Company's voting securities;
3. any immediate family member of any of the foregoing persons, which means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of the director, executive officer, nominee or more than 5% beneficial owner, and any person (other than a tenant or employee) sharing the household of such director, executive officer, nominee or more than 5% beneficial owner; and

4. any firm, corporation or other entity which is controlled by any of the foregoing persons or in which any of the foregoing persons has a 5% or greater beneficial ownership interest.

C. Transactions That Are Not Related Party Transactions

The following transactions shall not be considered Related Party Transactions that require approval by the Audit Committee:

- Executive officer compensation and benefit arrangements approved by the Board of Directors or the Compensation Committee.
- Director compensation arrangements approved by the Board of Directors or the Compensation Committee.

D. Audit Committee Approval

The Board of Directors has determined that the Audit Committee of the Board is the best suited to review and approve Related Party Transactions. Accordingly, at the beginning of each calendar year, the Audit Committee shall review all current Related Party Transactions. In addition, the Legal Department of the Company shall make a determination, after being presented with all the facts and circumstances relating to a proposed transaction, whether such transaction constitutes a Related Party Transaction for the purposes of this policy. If the Legal Department determines that the transaction is a Related Party Transaction, the proposed Related Party Transaction shall be submitted to the Audit Committee for consideration at the next Audit Committee meeting for approval or disapproval, or if such transaction was preliminarily entered into by management, the transaction shall be submitted to the Audit Committee for ratification; provided however, that if ratification by the Audit Committee is not received, management shall make all reasonable efforts to cancel or annul such transaction.

E. Disclosure

All Related Party Transactions that are required to be disclosed in the Company's filings with the Securities and Exchange Commission, as required by the Securities Act of 1933 and the Securities Exchange Act of 1934 and related rules and regulations, shall be so disclosed in accordance with such laws, rules and regulations.

The material features of this policy shall be disclosed in the Company's annual report on Form 10-K or in the Company's proxy statement, as required by applicable laws, rules and regulations.