

Affiliate Transaction Policy

Adopted July 11, 2007

I. Introduction

The Board of Directors (the “Board”) has approved the following policy governing transactions between Key Energy Services, Inc. (the “Company”) or any of its subsidiaries or controlled affiliates and certain parties related to the Company. This Policy may be amended from time to time to ensure consistency with new legislative and regulatory developments.

II. Definitions

Covered Transactions: All transactions, arrangements or relationships between the Company or any of its subsidiaries or controlled affiliates (including controlled joint ventures), on the one hand, and any Designated Person, on the other hand, including, without limitation, the purchase or sale of assets (other than transactions in securities of the Company effected on the NYSE, or the exchange or market on which the Company’s securities are then traded, in which the Company is not aware of the identity of the counterparty at the time of the transaction) or services, joint ventures, joint development activities, borrowing or lending money, or co-investments; provided that Covered Transactions for purposes of these Policies shall not include employment compensation arrangements with executive officers of the Company approved by the Board or the Compensation Committee of the Board or director compensation that is required to be reported pursuant to Item 402(k) of Regulation S-K.

Designated Person: (a) Any shareholder of the Company which has disclosed to the Company that it beneficially owns more than 5% of the Company’s outstanding shares of common stock or any “immediate family member” of such shareholder, (b) any person who is or was a director, executive officer or nominee for election as a director at any time since the beginning of the Company’s last fiscal year, (c) any person who is or was an “immediate family

member” of a director, executive officer or nominee for election as a director at any time since the beginning of the Company’s last fiscal year, or (d) any person known to the Company to be an affiliate of such shareholder or director or family member (as determined in accordance with the rules and regulations of the Securities and Exchange Commission).

Immediate family member: 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, or any other person sharing the household of such person, other than a tenant or employee.

III. Review of Transactions

1. All officers and directors of the Company shall be informed in writing on an annual basis of the terms of this policy.
2. The officers of the Company shall disclose to the Board all material information with respect to any Covered Transaction, including, without limitation, where relevant, the following:
 - a) The business purpose of such transaction and the reasons why the transaction is proposed to be engaged in with a Designated Person;
 - b) If the Company is a buyer or seller of property or services, the process used by the Company to evaluate such transaction;
 - c) If the Company is buying or selling property, or engaging in a joint venture with a Designated Person, the reasons why the Designated Person is engaging in such transaction;
 - d) The information provided to potential counterparties in the transaction including the information provided to any Designated Person;

- e) Financial information with respect to such transaction (including the approximate dollar value of the amount involved in the transaction and the approximate dollar value of the amount of the Designated Person's interest in the transaction without regard to the amount of any profit or loss);
- f) The terms of such transaction; and
- g) The steps, if any, required to comply with the requirements of the Company's indentures, credit agreements and other debt instruments; and
- h) Any other relevant information regarding the transaction.

The relevant officers of the Company must disclose all material information to the Board prior to entering into any Covered Transaction. Covered Transactions will not be approved retroactively.

3. In determining whether to authorize and approve any Covered Transaction, the Board shall use any process it determines is reasonable in light of the circumstances, such as the nature of the Covered Transaction and the identity of the Designated Person, which may or may not include, without limitation, the following:

- a) If the transaction has been subject to an auction process conducted by the Company, an analysis of the auction process;
- b) If the transaction is subject to an auction process conducted by the Designated Person, an analysis of the Company's participation in the auction process and market comparables (which may be prepared by the officers of the Company);

- c) If the transaction does not involve an auction process, an analysis of market comparables (which may be prepared by the officers of the Company);
 - d) An appraisal conducted by an independent appraiser of the value of the property or services which are the subject of the Covered Transaction;
 - e) An investment banking opinion with respect to the fairness of the transaction to the Company; and/or
 - f) A review of the transaction by independent legal counsel.
4. The Board shall determine whether any directors have a financial interest in such Covered Transaction and/or the Designated Person (the “Interested Directors”).
 5. If Interested Directors are identified, the Board shall have the opportunity to review such transaction without the presence of the Interested Directors.
 6. The Board may request the Audit Committee to review the accounting treatment (including proposed disclosure in the notes to the Company’s financial statements or otherwise) of the Covered Transaction with the Company’s internal auditors and independent accountants and report the results of such review to the Board.
 7. A majority of the members (other than Interested Directors) of the Board may approve and authorize the Covered Transaction only if such Board members determine that, under all of the circumstances, the transaction is in, or is not inconsistent with, the best interests of the Company.
 8. The Board may, in its discretion, delegate all or a portion of its duties and responsibilities under this policy to the Corporate Governance and Nominating

Committee of the Board or to a committee of the Board consisting solely of independent directors (none of whom may be Interested Directors).

9. The review and approval of a transaction, arrangement or relationship pursuant to this policy does not necessarily imply that such transaction, arrangement or relationship is required to be disclosed under Item 404(a) of Regulation S-K.

IV. Effect on Prior Policy

This policy supersedes the Affiliate Transaction Policy adopted April 18, 2005.