



**TRANSALTA CORPORATION
GENERAL GOVERNANCE GUIDELINES
FOR THE BOARD OF DIRECTORS**

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A. INTRODUCTION

The board of directors (the “**Board**”) of TransAlta Corporation (“**TransAlta**” or the “**Company**”) is responsible for overseeing the management of the Company by establishing key policies and standards, including policies for the assessment and management of the Company’s principal risks, for reviewing and approving the Company’s strategic plans and for hiring the President and Chief Executive Officer (“**CEO**”). The Board has the statutory authority and obligation to act honestly and in good faith with a view to the best interests of the Company, including all shareholders and its stakeholders. Although the Board is responsible for the stewardship of the Company, it has delegated to the President and CEO and the senior management team (“**Management**”) the day-to-day leadership and management of the Company. The Board monitors and assesses the performance and progress of the Company’s goals through candid and timely reports from the President and CEO and Management.

The Board has adopted the following guidelines to meet its governance responsibilities.

B. BOARD ORGANIZATION AND MEMBERSHIP

1) Independent Chair of the Board

The Board has chosen to separate the positions of chair of the Board (“**Chair**”) and CEO. The Chair is elected to the Board annually by the shareholders and is independent from Management and the Company.

2) Chair Position Description

The Chair’s responsibilities are set out in a position description that encompasses the Chair’s role as it relates to the Board, the committees of the Board, the CEO and the Company generally.

3) Size of the Board

It is the view of the Board that 9 to 14 directors are sufficient to provide a diversity of expertise and knowledge, permitting effective committee organization and is appropriate for efficient meetings and decision-making.

The Governance, Safety and Sustainability Committee (the “**GSSC**”) reviews annually the size of the Board and recommends changes in size and composition to the Board when appropriate.

4) Independence of Directors

The Board annually affirmatively determines the independence of each director, based on the recommendations made by the GSSC. An independent director is a director who is independent of Management and who has no direct or indirect material relationship or any other relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a Board member's independent judgment. In making this determination the Board adheres to the requirements of Canadian and US securities and stock exchange rules and regulations. Each director is required to complete an annual declaration of interest identifying all executive and board positions held by that director and whether any relationships exist with the Company or any of its subsidiaries and affiliates. The GSSC reviews these declarations annually to ensure the majority of directors are independent. The Board also undertakes this determination upon the appointment of any new director to the Board.

Any former officer of the Company serving on the Board is considered to be non-independent for purposes of corporate governance until such time as the applicable regulatory cooling-off period has been met and the independent directors determine that no direct or indirect material relationship exists, taking into consideration the former executive's duties and relationships for and with the Company.

As a matter of policy, the Board is comprised of a majority of independent directors. Decisions on matters of corporate governance and executive compensation are reviewed and made by the independent directors or a committee of independent directors.

5) Majority Voting for Directors and Form of Proxy

The Board believes that each of its members should carry the confidence and support of its shareholders. Directors stand for election each year at the annual meeting of shareholders. Shareholders are given the opportunity to vote for each director nominee individually.

If there is only one candidate nominated for each position available on the Board (an uncontested election), each candidate is elected only if the number of votes cast in their favor represents a majority of the votes in person or represented by proxy at the shareholder meeting. If an incumbent director who was a candidate that is not re-elected in an uncontested election, the director may continue office until the earlier of the 90th day after the day of the election and the day on which the successor is appointed or elected. Majority voting will not apply in the case of a contested election of directors, in which case the directors will be elected by a plurality of votes of the shares represented in person or by proxy at the meeting, and voted on the election of directors.

6) Criteria for Board Membership

Each year the GSSC reviews the composition of the Board in order to ensure that it has the best mix of skills and experience to guide the long-term strategy and ongoing business operations of the Company. This review takes into account diversity of background, skills and experience, gender, ethnicity, age, stakeholder perspectives and geographic background. Further, consideration is given to any upcoming retirements, succession needs, specialized committee membership requirements, industry, market and the strategic direction of the Company. The information is compiled through the use of a questionnaire which identifies the skills, education and experience of each current director and those factors needed to promote diversity and to lead the strategic direction of the Company. This information is then compiled into a matrix.

If a vacancy or a particular need arises, the GSSC, together with the Chair, identifies potential nominees through the assistance of a professional search firm or otherwise, and screens their qualifications and fit for the Board following which the GSSC makes a recommendation to the Board for appointment or election. The Board is responsible for nominating candidates to the Board for election by the shareholders and, if applicable, to appoint directors between annual meetings.

7) Change in a Director's Principal Occupation

A director who makes a significant change in principal occupation must advise the Board in order to give the Board the opportunity to review, through the GSSC, whether such change may have an impact on the Company, the director's independence, or the director's ability to fulfill their obligation to the Company.

8) New Director Orientation

New directors are provided with an orientation and education program which includes written information about the duties and responsibilities of directors, the business and operations of the Company, minutes and material from recent Board and committee meetings and one-on-one meetings with Management and Board members. A comprehensive director's manual is also provided to each new director. Specialized and independent training is also available from professional organizations if required or requested.

9) Ongoing Director Education

Each director is responsible for keeping informed about the business of the Company and developments in the industry. Management assists directors by providing regular updates at each regularly scheduled board meeting on various topics relating to the business, developments in the industry, political and economic developments in the geographical areas in which the Company is active and in the relevant markets. The Board also receives regular communications from the CEO on developments in the business, progress of the Company towards the achievement of its established goals, strategy and updates on relevant topics of interest.

In addition, Management engages external speakers from time to time to make presentations to the Board and Management on matters affecting the Company, the industry or the relevant markets. Directors may also take part in tours of the Company's facilities and participate in management presentations on the operations of different aspects of the Company's business. These presentations, discussions and tours facilitate increased discussion between Management and the Board and provide members of the Board with additional knowledge and context for exercising their duties.

Directors are also encouraged to participate in professional development courses and to maintain membership in professional associations that provide continuing education to directors. All costs associated with such memberships or development courses are reimbursed by the Company.

10) Retirement Age and Succession

The retirement age for Board directors is 75, provided the Board may, at its discretion, extend the term of a director beyond the age of 75 if the Board determines that the Company and the Board would benefit from the continued service of such director.

The GSSC annually reviews the size and composition of the Board and addresses the succession planning needs associated with ensuring the Board has the necessary skills and experience. The Board also considers the need for continuity of members on the Board balanced against the need for new skills and perspectives to address the direction of the Company.

11) Director Compensation

The GSSC annually reviews the Chair and directors' compensation and makes recommendations to the Board for consideration when it believes that changes in compensation are warranted. In making this determination the GSSC considers the market competitiveness of its compensation against companies of similar size and scope in Canada and within its comparator group. The GSSC also reviews the compensation data compiled by independent firms in assessing the competitiveness of its compensation.

The Board has determined that ownership of the Company's common shares or deferred share units ("**DSUs**") by directors is desirable and aligns the interests of directors with those of the Company's shareholders. A portion of the director's annual retainer fee is paid in shares or DSUs of the Company. The Company has established a minimum share and/or DSU holding requirement, which requires each director of the Company to acquire and hold a minimum value of three times the director's annual retainer fee within five years of their appointment to the Board. In addition, newly appointed directors are required to acquire and hold the equivalent of one time their annual retainer fee within two years of their appointment to the Board.

C. BOARD MEETINGS AND MATERIALS

1) Agendas and Materials

The Chair and the CEO, together with the Executive Vice President, Legal, Commercial and External Affairs (the "**EVP, Legal**") and Corporate Secretary or Assistant Corporate Secretary, establish the agenda for each Board meeting, ensuring that all matters to be addressed as provided in these guidelines form part of the scheduled agendas for the year. In advance of each meeting, Management distributes to the Board written information and data necessary for the Board's understanding of the business to be conducted at the meeting. Any Board member may suggest the inclusion of additional items on the agenda for a Board meeting.

2) Quorum

A majority of the members of the Board, present in person or by telephone or other communication device that permits all persons participating in the meeting to speak to each other, shall constitute a quorum.

3) Meetings and In Camera Meetings

Members of Management are invited to attend Board meetings as required.

The independent directors meet without Management present as a standing agenda item at each regularly scheduled Board meeting. The Chair discusses with the CEO any matters which may have arisen during these meetings that are relevant for the CEO or Management.

D. COMMITTEE ORGANIZATION AND MEETINGS

1) Board Committees

Each committee operates according to an approved charter. The standing committees of the Board are: Audit, Finance and Risk Committee ("**AFRC**"), Human Resources Committee ("**HRC**"), and GSSC and Investment Performance Committee ("**IPC**"). The Board may form a new committee or disband a current committee if, in its view, it is appropriate to do so, provided that the Board will always have an audit committee.

2) Assignment of Committee Members

The Board, based on a recommendation of the GSSC, appoints committee members and committee chairs. The GSSC's recommendation is derived from consultations with the Chair, with individual directors and with the objective of utilizing particular expertise while recognizing and balancing the need for renewal of ideas and continuity of knowledge and leadership.

3) Committee Meetings

Committee chairs, in consultation with committee members, determine the frequency, consistent with each committee's Charter, of committee meetings. The AFRC and GSSC meet at least quarterly, the HRC meets at least four times annually and the IPC meets at least semi-annually. Each committee reports to the Board with respect to the proceedings of its meetings. The independent directors meet without Management present as a standing agenda item at each regularly scheduled committee meeting.

4) Committee Agendas

The chair of each committee, in consultation with the appropriate members of Management and the EVP, Legal and Corporate Secretary or Assistant Corporate Secretary develops the committee's agendas. Through the use of a checklist linked to its Charter, each committee ensures that all matters to be addressed, as set out in its Charter, form part of its schedule of agendas for the year.

E. BOARD AND MANAGEMENT RESPONSIBILITIES

1) Board Relationship with Management

Board members have open access to Management for relevant information and Management is encouraged to make appropriate use of the Board's skills. Open discussions between the Board and members of Management about issues facing the Company are encouraged. The Board also encourages Management to bring employees who have potential as future senior leaders, and who would benefit from exposure to the Board, into Board meetings from time to time.

2) Appointment of Chief Executive Officer

The Board, at the recommendation of the HRC, is responsible for the hiring and appointment of the CEO, including the approval of his/her compensation and any employment agreement.

3) Evaluation of the Chief Executive Officer

The HRC conducts an annual review of the performance of the CEO as measured against objectives mutually established by the HRC and the CEO, and approved by the Board. The Chair of the Board and the chair of the HRC communicate the performance evaluation to the CEO and to the Board. The HRC utilizes this evaluation to make recommendations to the Board with respect to the CEO's variable compensation for the year.

4) Corporate Strategy

Management is responsible for the development of the Company's strategic direction and plan. It is the role of the Board to review, question, contribute, and approve the strategic plan of the Company and to oversee its execution. The Board dedicates time annually to review, discuss and approve the Company's strategic plan, receives updates at each regularly scheduled Board meeting and receives periodic updates from the CEO.

5) Limits to Management Authority

The Board has established general authority guidelines that identify the limitations to Management's authority and also delineates the areas of responsibility that require the involvement of the Board. Some of these areas include material organizational changes, policy development, budgets, material financial plans and commitments as well as corporate and substantive personnel matters. These guidelines place limits on management's authority based upon the nature and size of the proposed action.

6) Succession Planning and Management Development

The CEO presents annually a detailed report on Management development and succession planning to the HRC. The CEO, together with the HRC, also identifies, on a continuing basis, a successor in the event of the unexpected incapacity of the CEO. The HRC reviews and approves Management's succession plans and reports to the Board on these plans as required but at least annually.

7) Risk Assessment

The Board is responsible for understanding the principal risks associated with the Company's business and for ensuring that management has implemented appropriate strategies to manage these risks. It is the responsibility of management to ensure that the Board is kept well informed of these changing risks on a timely basis.

i) Enterprise Risk Management

The Board has delegated to the AFRC the oversight of management's assessment of the Company's principal risks. Management has adopted a comprehensive Enterprise Risk Management system which focuses on risk identification, risk classification, mitigation and identification of both residual and tail risks. These are construed within the risk appetite approved by the Board. Management reviews quarterly with the AFRC the Company's risk scorecard and residual risks including the identification of risk profile changes if applicable. The AFRC reports to the Board quarterly on this review. The Board undertakes a comprehensive review of Management's assessment annually and its response plan.

Management also undertakes a comprehensive risk-reward analysis of all projects and growth opportunities brought to the Board for approval.

ii) *Compensation Risk Assessment*

The Board has delegated to the HRC the oversight of risks related to compensation. Management has adopted a risk review framework which, as part of its overall Enterprise Risk Management review, assesses the Company's risks relating to compensation and focuses on the areas in which the Company would be most vulnerable. The Board has adopted a clawback policy to deter inappropriate risk-taking activities. The HRC undertakes an annual comprehensive review of compensation risk and reports to the Board thereon.

8) Internal Controls

The Company continually seeks to establish controls relating to financial or other matters that give the Board appropriate assurances that its responsibilities are discharged. The Company has adopted a framework for the assessment of internal controls and together with the internal and external auditors provide regular reports to the AFRC which then reports to the Board.

The Company has a Code of Conduct that sets out the key principles and policies governing the organization and has adopted a separate code of conduct for employees engaged in financial reporting and for those engaged in energy marketing. The Board, through the AFRC and the GSSC, as applicable, reviews the report of employees with respect to their compliance with these codes, the key financial policies of the Company, and is informed of any exceptions arising under any of the codes.

9) Insider Trading and Disclosure Practices

The Company has adopted an Insider Trading Policy, which is reviewed annually by the AFRC and reported to the Board. The policy requires, among other things, that directors and officers adhere to a trading blackout when in possession of material non-public information. All directors and officers, who are considered insiders of the Company, must consult with the EVP, Legal, Corporate Secretary or Assistant Corporate Secretary before trading in the Company's securities and provide confirmation immediately following any trade.

To facilitate and foster relations with shareholders and other stakeholders, the Company has adopted a Shareholder Engagement Policy and a Disclosure Policy that addresses the timely dissemination of all material information. The Company also has an Insider Trading Policy that prohibits any employee in possession of material undisclosed information from trading in the Company's securities prior to such information being disclosed to the public. These policies are reviewed annually by the AFRC or GSSC, as applicable, and are reported to the Board.

10) Outside Advisors for Individual Directors

If any individual director requires the services of an independent advisor to assist him/her with matters involving his/her responsibilities as a director, he/she may engage such an advisor at the expense of the Company provided that he/she has first obtained the authorization of the Chair. The director shall adhere to the principles enunciated in the Charter of the HRC in determining the independence of the advisor.

F. EVALUATION OF THE BOARD AND THE BOARD-MANAGEMENT RELATIONSHIP

1) Assessing the Chair's Performance

In each year of the Chair's term, the Chair of the committee, as a component of the Board evaluation questionnaire and through one-on-one interviews with each director, performs an evaluation of the Chair's performance, measured against the Chair's position description. The Chair of the committee summarizes the results, discusses the assessment with the Chair and reviews the results of this assessment during an in camera discussion with the Board. The results of this review form the basis for objectives for the Chair for the upcoming year. In addition, prior to the expiry of the Chair's first term, these reviews form the basis for the committee's recommendation to the Board with respect to the renewal of the Chair's term.

2) Assessing the Board, Committee, Individual Director Performance and Board-Management Relationship

The Chair meets annually with each director to obtain their views on the effectiveness of the Board, each committee, the Board-Management relationship, individual director contributions and performance, Management contributions and overall workings of the Board. To facilitate these one-on-one meetings, questionnaires relating to Board and individual committee assessments are provided to each director for completion on an anonymous basis. The questionnaires address specific topics and questions for discussion, including (among others) an overall assessment of the Board's performance in the discharge of its duties and responsibilities, whether the Board is satisfied with the strategic initiatives of the Company, the Company's risk management processes, the Company's disclosure processes, the Management succession plan, the Board's relationship with Management, the quality and timeliness of information provided to the Board in preparation for meetings, the operation of the Board and its committees and the contributions of each director.

The Chair also utilizes the information obtained during this evaluation to identify areas of improvement and objectives for the upcoming year and communicates this information to the Board during an in camera discussion. In addition, the Chair provides individual directors feedback on the evaluation conducted by their peers and provides direction on areas for improvement if necessary. The information is also utilized by the Chair to provide feedback to the CEO on his/her performance and for communication to the Management team for improvements in areas that will assist the Board in the discharge of its responsibilities.

G. COMMUNICATION AND SHAREHOLDER AND STAKEHOLDER RELATIONS

1) Board Communications Policy

The Board, or the appropriate committee thereof, reviews and approves the content of the Company's major communications to shareholders, other stakeholders and the investing public, including the quarterly and annual reports, the proxy circular, the annual information form and any prospectuses and supplements that may be issued.

The Board believes that it is generally the function of Management to communicate with the investment community, the media, customers, suppliers, employees, governments and the general public on management and operational matters.

2) Shareholder and other Stakeholder Communication

The Board believes that it is important to have constructive engagement with its shareholders and other stakeholders and has established means for the shareholders of the Company and other stakeholders to communicate with the Board in accordance with a Shareholder Engagement Policy. The contact information for communicating with the Board is contained in the Shareholder Engagement Policy and is also summarized annually in the Company's annual report. Shareholders and other stakeholders may, at their option, communicate with the Board on an anonymous basis.

In addition, the Board has adopted an annual non-binding advisory vote on the Company's approach to executive compensation. The Company is committed to ensuring continued good relations and communications with its shareholders and other stakeholders and will continue to evaluate its practices in light of any new governance initiatives or developments.