TRANSALTA CORPORATION
GENERAL GOVERNANCE GUIDELINES
FOR THE BOARD OF DIRECTORS

February 2023

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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 risen 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 the Audit, Finance and Risk Committee ("**AFRC**"), Human Resources Committee ("**HRC**"), **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.