

No: 500-11-042345-120

EXHIBIT R-1a)

**(In support of the Motion for authorization to cancel
a letter of credit and to make certain distributions)**

**FIRST SUPPLEMENT
TO THE PENSION AND BENEFITS AGREEMENT**

THIS AGREEMENT is made as of October 16, 2007,

AMONG:

AIR CANADA

- and -

ACTS LP

- and -

**ACTS AERO TECHNICAL SUPPORT & SERVICES INC. (formerly known as
Ksage MRO Holdings Inc.)**

WHEREAS:

- A. The parties hereto are parties to a Pension and Benefits Agreement made as of June 22, 2007 (the "PBA").
- B. Given the various adjustments that will need to be made in respect of the letters of credit outlined in Schedule C-2 to the PBA, this first supplemental agreement ("Supplement 1") sets out the parties' agreement regarding the terms and conditions for effecting such adjustments.

NOW THEREFORE, in consideration of the premises and covenants and agreements contained in this Supplement 1 and the PBA, and such other good and valuable consideration, the receipt and sufficiency of which parties hereto acknowledge, the parties hereto agree as follows:

- 1. All capitalized terms used in this Agreement and not otherwise defined herein shall have the meanings ascribed to them in the PBA.
- 2. This Supplement 1 shall be a supplement to the PBA. In the event of any inconsistency between this Supplement 1 and Schedule C-1 or Schedule C-2 to the PBA, the terms of this Supplement 1 shall prevail.

LC No. 1

3. Air Canada shall cause a letter of credit ("LC1") to be issued in favour of the Purchaser on the Closing Date pertaining to the amount of the aggregate solvency deficiency of the AC DB Plans in respect of the AC Non-Unionized Plan Beneficiaries as of the Closing Date (the "Non-Unionized Plan Amount"), the amount of such letter of credit to be equal to the estimate of such Non-Unionized Plan Amount determined pursuant to Section 10 of Schedule C-1 to the PBA. Following the Closing Date, as part of the determination of the Closing Date Assets pursuant to Section 3 of the PBA there shall be a determination of the Non-Unionized Plan Amount and if such determination confirms a Non-Unionized Plan Amount that is different from the estimate referred to above, LC1 shall be amended (in accordance with the terms herein) such that:
- (a) the face amount shall equal the Non-Unionized Plan Amount, as finally determined, less the capital portion of all quarterly payments made to the Purchaser pursuant to Section 13 of the PBA from the Closing Date up to the date which is one month prior to the date on which the Purchaser shall have agreed or be deemed to have agreed with such determination of the Non-Unionized Plan Amount as described above; and
 - (b) the related reduction schedule shall also be adjusted to provide for any amendments to the amounts of the quarterly payments to be made to the Purchaser under Section 13 of the PBA.

The first scheduled quarterly payment pursuant to Section 13 of the PBA after the final determination shall be adjusted for any difference between the quarterly payments required in accordance with such final determination and the past quarterly payments actually made.

4. If there is a Non-Unionized Adjustment greater or less than zero, then LC1 shall be amended (in accordance with the terms herein) on the DB Non-Unionized Transfer Date such that:
- (a) the face amount shall equal the present value of the remaining quarterly payments to be made following the DB Non-Unionized Transfer Date pursuant to Section 13 of the PBA; plus
 - (b) the quarterly payments made within one month prior to the DB Non-Unionized Transfer Date; and

- (c) the related reduction schedule shall also be further adjusted to provide for any amendments to the amounts of the quarterly payments to be made to the Purchaser under Section 13 of the PBA.

LC No. 2

5. Air Canada shall cause a letter of credit ("LC2") to be issued in favour of the Purchaser on the Closing Date pertaining to the amount of the aggregate solvency deficiency of the AC DB Plans in respect of the AC Unionized Plan Beneficiaries as of the Closing Date assuming all AC Unionized Employees at the Closing Date are AC Unionized Plan Beneficiaries (the "Unionized Plan Amount"), the amount of such letter of credit to be equal to the estimate of such amount determined pursuant to Section 10 of Schedule C-1 to the PBA.
6. As soon as possible after the Closing Date, Air Canada shall provide the Purchaser with a determination of the Unionized Plan Amount together with copies of all necessary information and data used in such determination along with any other related information which the Purchaser may reasonably request. The Purchaser shall notify Air Canada within 60 days of receiving such information and data from Air Canada as to whether it agrees or disagrees with Air Canada's determination of the Unionized Plan Amount. If the Purchaser fails to provide such notice to Air Canada, the Purchaser shall be deemed to have agreed with such determination. If the Purchaser notifies Air Canada that it disagrees with such determination, Air Canada and the Purchaser shall negotiate in good faith to reach an agreement respecting such determination. If Air Canada and the Purchaser are unable to agree, the provisions of Section 61 of the PBA shall apply. If such determination confirms a Unionized Plan Amount that is different from the estimate referred to the immediately preceding paragraph, LC2 shall be amended (in accordance with the terms herein) such that the face amount shall equal the aggregate of the Compensation Amounts in Section 24 of the PBA determined on a date which is one month prior to the date on which the Purchaser shall have agreed or be deemed to have agreed with such determination of the Unionized Plan Amount, assuming the Certification Date occurred on such date of determination and calculated as if all AC Unionized Employees at the Closing Date have become AC Unionized Plan Beneficiaries.
7. After the Closing Date and prior to the actual Certification Date, Air Canada shall provide evidence reasonably satisfactory to the Purchaser of all past service contributions remitted by Air Canada to the AC DB Plans. During such period, the face amount of LC2 shall be amended on an annual basis on the anniversary date of the Closing Date, so that such face amount shall equal the aggregate of the Compensation Amounts in Section 24 of the PBA determined one month prior to

the anniversary date, assuming the Certification Date occurred one month prior to the anniversary date and calculated as if all AC Unionized Employees at the previous January 1, or such other date agreed to by the parties, have become AC Unionized Plan Beneficiaries.

8. Provided that the Certification Date occurs prior to January 30, 2014, upon the final determination pursuant to the PBA of the Compensation Amounts, if the total of the Compensation Amounts in respect of the Main Plan and the CAIL IAMAW Plan is greater than zero, LC2 shall be further amended (in accordance with the terms herein) such that:
 - (a) the face amount shall equal the total of the Compensation Amounts less the capital portion of all quarterly payments made to the Purchaser pursuant to Section 24 of the PBA (as may be modified pursuant to Section 60 of the PBA) from the Certification Date up to the date which is one month prior to the date on which the Purchaser shall have agreed or be deemed to have agreed with the determination of the Compensation Amounts pursuant to the PBA;
 - (b) a reduction schedule shall be added to LC2 so that the face amount will reduce 30 days after each quarterly payment is made to the Purchaser pursuant to Section 24 of the PBA, as contemplated in Schedule C-2 to the PBA; and
 - (c) the final expiry date of LC2 shall be amended so that it is the fifth anniversary of the actual Certification Date.

The first scheduled quarterly payment pursuant to Section 24 of the PBA after the final determination shall be adjusted for any difference between the quarterly payments required in accordance with such final determination and the past quarterly payments actually made.

9. If the Certification Date does not occur prior to January 30, 2014, the Purchaser shall surrender LC2 for cancellation no later than February 28, 2014.
10. If there is a Unionized Adjustment greater or less than zero, then LC2 shall be further amended (in accordance with the terms herein) on the DB Unionized Transfer Date such that:
 - (a) the face amount shall equal the present value of the remaining quarterly payments following the DB Unionized Transfer Date pursuant to Section 24 of the PBA (as may be modified pursuant to Section 60 of the PBA); plus

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- (b) the quarterly payments made within one month prior to the DB Unionized Transfer Date; and
 - (c) the related reduction schedule shall be adjusted to provide for any amendments to the amounts of the quarterly payments to be made to the Purchaser under Section 24 of the PBA.
11. In the event that the payments under Section 24 of the PBA are modified pursuant to Section 60 of the PBA, then LC2 shall be further amended such that the face amount and related reduction schedule shall be modified by the adjustments effected pursuant to Section 60 of the PBA.

LC No. 3

12. Air Canada shall cause a letter of credit ("LC3") to be issued in favour of the Purchaser on the Closing Date pertaining to the Non-Unionized Disability Liability as of the Closing Date, the amount of such letter of credit to be equal to the estimate of such amount determined pursuant to Section 10 of Schedule C-1 to the PBA. Upon the determination pursuant to the PBA of the amount of the Non-Unionized Disability Liability as of the Closing Date (the "Non-Unionized Disability Amount"), LC3 shall be amended (in accordance with the terms herein) such that:
- (a) the face amount shall equal the Non-Unionized Disability Amount less the capital portion of all quarterly payments made to the Purchaser pursuant to Section 33 of the PBA from the Closing Date up to the date which is one month prior to the date on which the Purchaser shall have agreed or be deemed to have agreed with such determination of the Non-Unionized Disability Amount pursuant to the PBA; and
 - (b) the related reduction schedule shall be adjusted to provide for any amendments to the amounts of the quarterly payments to be made to the Purchaser under Section 33 of the PBA.

The first scheduled quarterly payment pursuant to Section 33 of the PBA after the final determination shall be adjusted for any difference between the quarterly payments required in accordance with such final determination and the past quarterly payments actually made.

LC No. 4

13. Air Canada shall cause a letter of credit ("LC4") to be issued in favour of the Purchaser on the Closing Date pertaining to the Unionized Disability Liability as

of the Closing Date, the amount of such letter of credit to be equal to the estimate of such amount determined pursuant to Section 10 of Schedule C-1 to the PBA.

14. As soon as possible following the Closing Date, Air Canada and the Purchaser shall agree on a final determination of the Unionized Disability Liability as of the Closing Date (the "Closing Unionized Disability Amount") in accordance with the procedure set out in the PBA under the definition of "Unionized Disability Liability" and consistent with Section 1(e) of Schedule C-1 to the PBA, and if such final amount is different from the estimate referred to in the immediately preceding paragraph, LC4 shall be amended (in accordance with the terms herein) such that the face amount shall equal the Closing Unionized Disability Amount.
15. Provided that the Certification Date occurs prior to January 30, 2014, following the Certification Date, upon the determination pursuant to the PBA of the amount of the Unionized Disability Liability as of the Certification Date (the "Unionized Disability Amount"), LC4 shall be amended (in accordance with the terms herein) such that:
 - (a) the face amount shall equal the Unionized Disability Amount less the capital portion of all quarterly payments made to the Purchaser pursuant to Section 37 of the PBA (as may be modified pursuant to Section 60 of the PBA) from the Certification Date up to the date which is one month prior to the date on which the Purchaser shall have agreed or be deemed to have agreed with such determination of the Unionized Disability Amount pursuant to the PBA;
 - (b) a reduction schedule shall be added to LC4 so that the face amount will reduce 30 days after each quarterly payment is made to the Purchaser pursuant to Section 37 of the PBA as contemplated in Schedule C-2 to the PBA; and
 - (c) the final expiry date of LC4 shall be amended so that it is the fifth anniversary of the actual Certification Date.

The first scheduled quarterly payment pursuant to Section 37 of the PBA after the final determination shall be adjusted for any difference between the quarterly payments required in accordance with such final determination and the past quarterly payments actually made.

16. If the Certification Date does not occur prior to January 30, 2014, the Purchaser shall surrender LC4 for cancellation no later than February 28, 2014.

17. In the event that the payments under Section 37 of the PBA are modified pursuant to Section 60 of the PBA, then LC4 shall be further amended such that the face amount and related declining amount schedule shall be modified pursuant to the adjustments effected pursuant to Section 60 of the PBA.

LC No. 5

18. Air Canada shall cause a letter of credit ("LC5") to be issued in favour of the Purchaser on the Closing Date pertaining to the Non-Unionized Retiree Liability as of the Closing Date, the amount of such letter of credit to be equal to the estimate of such amount determined pursuant to Section 10 of Schedule C-1 to the PBA. Upon the determination pursuant to the PBA of the amount of the Non-Unionized Retiree Liability as of the Closing Date (the "Non-Unionized Retiree Amount"), LC5 shall be amended (in accordance with the terms herein) such that:
- (a) the face amount shall equal the Non-Unionized Retiree Amount less the capital portion of all quarterly payments made to the Purchaser pursuant to Section 40 of the PBA from the Closing Date up to the date which is one month prior to the date on which the Purchaser shall have agreed or be deemed to have agreed with such determination of the Non-Unionized Retiree Amount pursuant to the PBA; and
 - (b) the related reduction schedule shall be adjusted to provide for any amendments to the amounts of the quarterly payments to be made to the Purchaser under Section 40 of the PBA.

The first scheduled quarterly payment pursuant to Section 40 of the PBA after the final determination shall be adjusted for any difference between the quarterly payments required in accordance with such final determination and the past quarterly payments actually made.

LC No. 6

19. Air Canada shall cause a letter of credit ("LC6") to be issued in favour of the Purchaser on the Closing Date pertaining to the Unionized Retiree Liability as of the Closing Date, the amount of such letter of credit to be equal to the estimate of such amount determined pursuant to Section 10 of Schedule C-1 to the PBA.
20. As soon as possible following the Closing Date, Air Canada and the Purchaser shall agree on a final determination of the Unionized Retiree Liability as of the Closing Date (the "Closing Unionized Retiree Amount") in accordance with the procedure set out in the PBA under the definition of "Unionized Retiree Liability" and consistent with Section 1(f) of Schedule C-1 to the PBA, and if such final

amount is different from the estimate referred to in the immediately preceding paragraph, LC6 shall be amended (in accordance with the terms herein) such that the face amount shall equal the Closing Unionized Retiree Amount.

21. Provided the Certification Date occurs prior to January 30, 2014, following the Certification Date, upon the determination pursuant to the PBA of the amount of the Unionized Retiree Liability as of the Certification Date (the "Unionized Retiree Amount"), LC6 shall be further amended (in accordance with the terms herein) such that:
 - (a) the face amount shall equal the Unionized Retiree Amount less the capital portion of all quarterly payments made to the Purchaser pursuant to Section 41 of the PBA (as may be modified pursuant to Section 60 of the PBA) from the Certification Date up to the date which is one month prior to the date on which the Purchaser shall have agreed or be deemed to have agreed with such determination of the Unionized Retiree Amount pursuant to the PBA; and
 - (b) a reduction schedule shall be added to LC6 so that the face amount will reduce 30 days after each quarterly payment is made to the Purchaser pursuant to Section 41 of the PBA as contemplated in Schedule C-2 to the PBA; and
 - (c) the final expiry date of LC6 shall be amended such that it is the fifth anniversary of the actual Certification Date.

The first scheduled quarterly payment pursuant to Section 41 of the PBA after the final determination shall be adjusted for any difference between the quarterly payments required in accordance with such final determination and the past quarterly payments actually made.

22. If the Certification Date does not occur prior to January 30, 2014, the Purchaser shall surrender LC6 for cancellation no later than February 28, 2014.
23. In the event that the payments under Section 41 of the PBA are modified pursuant to Section 60 of the PBA after the Certification Date, then LC6 shall be further amended such that the face amount and related declining amount schedule shall be modified pursuant to the adjustments effected pursuant to Section 60 of the PBA.

General

24. Should any amendments to LC1 and/or LC2 be required, which if made would cause the face amount of LC1 and/or LC2 to be reduced below zero dollars, the Purchaser shall be required to cause the issuance of one or more letters of credit (collectively, the "Surplus LCs") in favour of Air Canada in accordance with the terms of items 1 and/or 2, as the case may be, of Schedule C-2 to the PBA and the Purchaser shall surrender for cancellation LC1 and/or LC2, as the case may be. The Surplus LCs shall be subject to the amendments set out herein that are applicable to LC1 and/or LC2, including without limitation, paragraphs 4, 8, 10 and 11, *mutatis mutandis*. If at any time subsequent to the issuance of a Surplus LC, any amendment is required which if made would cause the face amount to be reduced below zero dollars, Air Canada shall cause the issuance of one or more replacement letters of credit in favour of the Purchaser on the same terms as LC1 or LC2, as the case may be, which replacement letters of credit shall be subject to the terms of this Supplement 1, the PBA and issued in accordance with items 1 and 2 of Schedule C-2 to the PBA, and Air Canada shall surrender for cancellation the applicable Surplus LC.
25. Air Canada shall not apply to the issuing financial institution or any replacement financial institution for any amendment that is required hereunder to be made to LC1 or LC2 (and any replacement thereof), LC3, LC4, LC5 or LC6 (collectively, the "Letters of Credit"), unless and until the Purchaser has had a reasonable opportunity to review the terms and conditions contained in the proposed amendment and has consented to such proposed amendment in writing. The Purchaser shall cooperate with any reasonable request made by Air Canada to the Purchaser to effect any such amendment. For greater certainty, Air Canada acknowledges that no amendments will be made to the Letters of Credit unless and until the Purchaser has consented in writing to the terms of such amendment.
26. The term "investment-grade trustee" as used in Schedule C-2 of the PBA shall mean a trust company incorporated or continued under the *Trust and Loan Companies Act* (Canada) that is any one of the following trust companies or its subsequent successor:
- (a) The Bank of Nova Scotia Trust Company;
 - (b) BMO Trust Company;
 - (c) BNY Trust Company of Canada;
 - (d) The Canada Trust Company;

- (e) CIBC Mellon Trust Company;
- (f) Computershare Trust Company of Canada;
- (g) HSBC Trust Company (Canada);
- (h) Laurentian Trust of Canada Inc.;
- (i) Montreal Trust Company of Canada;
- (j) National Trust Company;
- (k) The Northern Trust Company, Canada;
- (l) The Royal Trust Company; or
- (m) State Street Trust Company, Canada.

27. This Supplement 1 to the PBA may be executed by the parties in separate counterparts and all such counterparts taken together shall be deemed to constitute one and the same instrument.

AIR CANADA

By: _____
 Montie R. Brewer
 President, Chief Executive Officer

ACTS LP, by 4378555 Canada Inc., in its
 capacity as general partner

By: _____
 Nicolas Vanasse
 Authorized Signatory

APPROVED
 BY TO LAW
 10/10/2007


27. This Supplement I to the PBA may be executed by the parties in separate counterparts and all such counterparts taken together shall be deemed to constitute one and the same instrument.



AIR CANADA

By:

[Handwritten signature]

Montie R. Brewer
President, Chief Executive Officer

ACTS LP, by 4978555 Canada Inc., in its capacity as general partner

By:

Chabean Bolouri
President and Chief Executive Officer

ACTS AERO TECHNICAL SUPPORT & SERVICES INC. (Formerly known as Kings MRO Holdings Inc.)


By:

Scott Stuart
(Authorized Signatory)

By:

William Jansbrink
(Authorized Signatory)

**ACTS AERO TECHNICAL SUPPORT
& SERVICES INC. (formerly known as
Ksage MRO Holdings Inc.)**

By: 
Scott Stuart
(Authorized Signatory)

By: _____
William Janetschek
(Authorized Signatory)

**ACTS AERO TECHNICAL SUPPORT
& SERVICES INC. (formerly known as
Ksage MRO Holdings Inc.)**

By: _____
Scott Stuart
(Authorized Signatory)

By: _____
William Janetschek
(Authorized Signatory)

No 500-11-042345-120

SUPERIOR COURT (Commercial Division)
DISTRICT OF MONTRÉAL

IN THE MATTER OF THE PROPOSED PLAN OF
COMPROMISE AND ARRANGEMENT OF :

AVEOS FLEET PERFORMANCE INC. / AVEOS
PERFORMANCE AÉRONAUTIQUE INC.

And
AERO TECHNICAL US, INC.

Insolvent Debtors/Petitioners

And
FTI CONSULTING CANADA INC.

Monitor

And
AIR CANADA and
CANADIAN IMPERIAL BANK OF CANADA
And AL.

Mises-en-cause

Me Roger P. Simard/ Our file: 548732-001

EXHIBIT R-1a)

DENTONS

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