

**No: 500-11-042345-120**

## **EXHIBIT R-1c)**

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

**THIRD SUPPLEMENT  
TO THE PENSION AND BENEFITS AGREEMENT  
AND  
AMENDMENT TO PAYMENT SUSPENSION AGREEMENT  
(the "Agreement")**

**THIS AGREEMENT** is made as of January 7, 2009

**BETWEEN:**

**AIR CANADA**

("Air Canada")

- and -

**AVEOS FLEET PERFORMANCE INC.**

("Aveos")

**WHEREAS:**

- A. The parties hereto are the parties to a Payment Suspension Agreement dated October 28, 2008 (the "**Payment Suspension Agreement**") and are two of the parties to a Pension and Benefits Agreement made as of June 22, 2007 (the "**PBA**"), to the first supplemental agreement to the PBA made as of October 16, 2007 ("**Supplement 1**") and to the second supplemental agreement to the PBA made as of October 28, 2008 ("**Supplement 2**").
- B. KSAGE MRO Holdings Inc., the Purchaser under the PBA, changed its name to ACTS Aero Technical Support & Services Inc., and subsequently to Aveos Fleet Performance Inc.
- C. Pursuant to the Payment Suspension Agreement, Aveos surrendered each of the Cancelled LCs (as such term is defined in the Payment Suspension Agreement) to Air Canada, and, along with Air Canada, executed a joint direction addressed to Bank of Montreal for the cancellation of same.

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- E. The Cancelled LCs were cancelled by Bank of Montreal on or about October 30, 2008.
- F. It is desirable to amend the Payment Suspension Agreement, and to modify the PBA and Supplement 1 to more fully reflect the amendments to the PBA contemplated by the Payment Suspension Agreement, including in respect of the obligation of Air Canada to deliver letters of credit pursuant to the PBA and Supplement 1.

**NOW THEREFORE**, in consideration of the premises and covenants and agreements contained in the PBA, Supplement 1, Supplement 2, the Payment Suspension Agreement, and this Agreement, and other good and valuable consideration, the receipt and sufficiency of which the 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 or Supplement 1, as applicable.
2. This Agreement shall amend the Payment Suspension Agreement and be a supplement to the PBA. In the event of any inconsistency between the PBA, Supplement 1, Supplement 2 or the Payment Suspension Agreement on the one hand and this Agreement on the other, this Agreement shall prevail.
3. The parties hereto confirm that Air Canada's obligations to provide any letters of credit in respect of (i) the Non-Unionized Retiree Liability under Section 18 of Supplement 1, and (ii) the Unionized Retiree Liability under Section 19 of Supplement 1, are suspended until Air Canada is required to provide letters of credit pursuant to and in the manner contemplated by the Payment Suspension Agreement, as amended by the terms of Section 4 hereof.
4. Section 1.3(b) of the Payment Suspension Agreement is amended by replacing it with the following:

(b) Provided that no Event of Default has occurred, Air Canada will provide to Aveos (and, as indicated below, adjust) the letters of credit indicated below, issued by a financial institution reasonably acceptable to Aveos:

- (i) no later than five (5) Business Days after the third Payment Date, a letter of credit in the form and with the content of LC5 ("LC5a") and in a face amount equal to:

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(A) the Non-Unionized Retiree Amount (being \$3,199,000), less

(B) the capital portion of all quarterly payments made to Aveos pursuant to Section 40 of the Pension and Benefits Agreement from the Closing Date (as defined in the Pension and Benefits Agreement) up to the date which is one month prior to the third Payment Date,

(for the purpose hereof, the resulting face amount is herein referred to as the "LC5a Face Amount").

The related reduction schedule applicable to LC5a shall match the quarterly payment schedule under Section 40 of the Pension and Benefits Agreement. All other provisions of the Pension and Benefits Agreement in respect of LC5 shall apply to LC5a to the extent that such provisions are not inconsistent herewith.

(ii) no later than five (5) Business Days after the third Payment Date, a letter of credit in the form and with the content of LC6 ("LC6a") and in a face amount equal to:

(A) fifty percent (50%) of the Closing Unionized Retiree Amount (as defined in the Pension and Benefits Agreement, and being \$37,373,000) or, if the Certification Date has occurred and the Unionized Retiree Amount (as defined in the Pension and Benefits Agreement) has been determined in accordance with the Pension and Benefits Agreement, fifty percent (50%) of the Unionized Retiree Amount, as the case may be, less

(B) 50% of the LC5a Face Amount, less

(C) the capital portion of all quarterly payments, if any, made to Aveos pursuant to Section 41 of the Pension and Benefits Agreement (as may be modified pursuant to Section 60 of the Pension and Benefits Agreement) from the Certification Date (as defined in the Pension and Benefits Agreement) up to the date which is one month prior to the third Payment Date.

If LC6a is to be issued after the Certification Date and the Unionized Retiree Amount has not been determined in accordance with the Pension and Benefits Agreement, LC6a shall have a face amount equal to:

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- (A) fifty percent (50%) of the Closing Unionized Retiree Amount (being \$37,373,000), less
- (B) 50% of the LC5a Face Amount, less
- (C) the capital portion of all quarterly payments, if any, made to Aveos pursuant to Section 41 of the Pension and Benefits Agreement (as may be modified pursuant to Section 60 of the Pension and Benefits Agreement) from the Certification Date up to the date which is one month prior to the third Payment Date.

If LC6a is issued after the Certification Date, a reduction schedule shall be added to LC6a so that the face amount will reduce 30 days after each quarterly payment is made to Aveos pursuant to Section 41 of the Pension and Benefits Agreement as contemplated in Schedule C-2 to the Pension and Benefits Agreement.

All other provisions of the Pension and Benefits Agreement in respect of LC6 shall apply to LC6a to the extent that such provisions are not inconsistent herewith.

- (iii) no later than five (5) Business Days after the sixth Payment Date, Air Canada shall cause the face amount of LC6a at such time to be adjusted to equal the Closing Unionized Retiree Amount (if at such time the Certification Date has not occurred or the Unionized Retiree Amount has not been determined in accordance with the Pension and Benefits Agreement) or (if at such time the Certification Date has occurred and Unionized Retiree Amount has been determined in accordance with the Pension and Benefits Agreement) the Unionized Retiree Amount, as the case may be, less the capital portion of all quarterly payments, if any, made to Aveos pursuant to Section 41 of the Pension and Benefits Agreement (as may be modified pursuant to Section 60 of the Pension and Benefits Agreement) from the Certification Date up to the date which is one month prior to such sixth Payment Date.

If LC6a is issued prior to the Certification Date, whether it is adjusted in accordance with the foregoing or not, after the Certification Date a reduction schedule shall be added to LC6a so that the face amount will reduce 30 days after each quarterly payment is made to Aveos pursuant to Section 41 of the Pension and Benefits Agreement as contemplated in Schedule C-2 to the Pension and Benefits Agreement.

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For the purposes hereof, each of LC5a and LC6a are herein referred to as a "Replacement LC".

5. Section 1.8(b) of the Payment Suspension Agreement is amended by replacing it by the following:
  - (b) Air Canada shall automatically be released from the obligation to issue (or adjust) any Replacement LC which has not been issued (or adjusted) as at the date of the Event of Default.
6. This Agreement may be executed by the parties in separate counterparts, and both such counterparts taken together shall be deemed to constitute one and the same instrument.

**[Signature page follows.]**

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**AIR CANADA**

By: \_\_\_\_\_  
Name: **Montie Brewer**  
Title: **President and CEO**

**AVEOS FLEET PERFORMANCE INC.**

By:   
Name: **Chahram Kolouri**  
Title: **President and CEO**

APPROVED  
As to Law  
Atty Gen  
21/01/09

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No 500-11-042345-120

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SUPERIOR COURT (Commercial Division)  
DISTRICT OF MONTRÉAL

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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

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

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## EXHIBIT R-1c)

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**DENTONS**

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