Senior Secured Notes and Shelf Agreement

On December 28, 2012, we entered into a $50.0 million Senior Secured Notes purchase agreement ("Senior Secured Notes") and a $25.0 million private shelf agreement (the "Notes Agreement") by and among us, The Prudential Investment Management, Inc. and certain Prudential affiliates (the "Noteholders"). On June 3, 2015, the Notes Agreement was amended to provide for the issuance of additional notes of up to $75.0 million over the three year period ending June 3, 2018 ("Additional Senior Notes" and together with the Senior Secured Notes, the "Senior Notes").

The Senior Notes were funded in three tranches of $50.0 million on December 28, 2012, $25.0 million on July 25, 2013, and $25.0 million on November 9, 2015, and bore interest at annual rates of 3.65%, 3.85%, and 4.60%, respectively, paid quarterly in arrears.

On July 9, 2018, we used a portion of the proceeds from the Term Loan to pay off and extinguish all of the Senior Notes, which resulted in a prepayment penalty recognized in the third quarter of 2018 of $2.3 million.

Canadian Credit Facility

We had a demand credit facility for $8.0 million in Canadian dollars with a Canadian bank for purposes of issuing commercial letters of credit in Canada. During the fourth quarter of 2018, we reduced the amount of the credit facility to $4.0 million. The credit facility has an annual renewal and provides for the issuance of commercial letters of credit for a term of up to five years. The facility provides for an annual fee of 1.0% for any issued and outstanding commercial letters of credit. Letters of credit can be denominated in either Canadian or U.S. dollars. At December 31, 2018, there were no letters of credit outstanding, and the available borrowing capacity was $4.0 million in Canadian dollars. The credit facility contains a working capital restrictive covenant for our Canadian subsidiary, OnQuest Canada, ULC. At December 31, 2018, OnQuest Canada, ULC was in compliance with the covenant.

Note 10 — Derivative Instruments

We are exposed to certain market risks related to changes in interest rates. To monitor and manage these market risks, we have established risk management policies and procedures. We do not enter into derivative instruments for any purpose other than hedging interest rate risk. None of our derivative instruments are used for trading purposes.

Interest Rate Risk. We are exposed to variable interest rate risk as a result of variable-rate borrowings under our Credit Agreement. To manage fluctuations in cash flows resulting from changes in interest rates on a portion of our variable-rate debt, we entered into an interest rate swap agreement on September 13, 2018 with an initial notional amount of $165.0 million, or 75% of the debt outstanding under our Term Loan, which was not designated as a hedge for accounting purposes. The notional amount of the swap will be adjusted down each quarter by 75% of the required principal payments made on the Term Loan. See Note 9 – "*Credit Arrangements*". The swap effectively changes the variable-rate cash flow exposure on the debt obligations to fixed rates. The fair value of outstanding interest rate swap derivatives can vary significantly from period to period depending on the total notional amount of swap derivatives outstanding and fluctuations in market interest rates compared to the interest rates fixed by the swaps. As of December 31, 2018, our outstanding interest rate swap agreement contained a notional amount of $160.9 million with a maturity date of July 10, 2023. There were no outstanding interest rate swap agreements at December 31, 2017.

Credit Risk. By using derivative instruments to economically hedge exposures to changes in interest rates, we are exposed to counterparty credit risk. Credit risk is the failure of a counterparty to perform under the terms of a derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, we do not possess credit risk. We minimize the credit risk in derivative instruments by entering into transactions with high quality counterparties. We have entered into netting agreements, including International Swap Dealers Association ("ISDA") Agreements, which allow for netting of contract receivables and payables in the event of default by either party.