Dear OGIB reader,

Environmental concerns about hydraulic fracturing are impacting shale oil and gas exploration all over the world—Canada, the United States, New Zealand—but none as much as France.

One year ago, the Paris Basin in northern France was one of the top international shale oil plays in the world. And just like in North America and the Bakken, a junior player was the leader—Toreador Resources, TRGL-NASD.

How this world class play got developed was textbook geological sleuthing. I wrote a full length story on it HERE.

Toreador's stock ran from $5 last year to $18 in February this year before the French government took a fast and bold step to ban fracking country-wide—sending the stock to under $3.

How does a junior company survive such a mortal blow? It's a question more investors should be asking as environmental concerns surrounding hydraulic fracturing are having a bigger impact on community relations and speed/time of drilling programs.

Only three weeks ago the Environmental Protection Agency (EPA) in the United States suggested publicly that all fracking in the Bakken could stop next month—January 2012. That was quickly shot down by the North Dakota senator the next day.

Down in New Zealand, TAG Oil shareholders were subject to local residents appealling their permit to drill wells—which will be fracked. At the last minute, they said they could not afford to prolong their protest.

In the eastern Canadian province of New Brunswick, citizen groups and environmentalists opposed to fracking have been blocking roads and staging demonstrations

The concern around fracking is real, and it's global.

For Toreador shareholders, it meant an immediate and sustained hit to their wallets, with the stock losing 80% of its value in months.

For management, it meant speeding up their process of trying to diversify out of that one play—even though Hess was spending the next $250 million—and led to a merger with a larger private company with a surprisingly similar play in Texas.

Merger documents filed with the Securities and Exchange Commission in October show that Toreador was already looking at ways to diversify the company. Their stock price was rising, giving them good currency to do a big deal. But nothing fit just right.

The French ban on fracking obviously made a second play a lot more important. You can try to produce a shale like the Liassic without fracking, but flow rates will be MUCH less than with fracking—and they would still have the steep decline rate regular shale wells have around the world. It's not the sexy production growth profile that would entice investors.

So after having in-depth discussions with several groups, Toreador's CEO, Craig McKenzie, struck a deal with a private company, ZaZa Energy, which had some synergies with Toreador. They too have a large joint venture with US giant independent producer Hess Corp. (HES-NYSE) – but theirs is in Texas. And their joint venture is worth $3 billion, 10x what Toreador's deal was. ZaZa's JV with Hess in the Eagle Ford covers 123,000 gross acres with Hess covering all costs related to land, drilling and completions.

Back in 2009 ZaZa's owners – three seasoned Texas oilmen – and McKenzie's team were each doing the same thing—getting started on a new frontier play and trying to find a JV partner.

Coincidentally, they both landed Hess around the same time; Hess signed its deal with Toreador about a week after signing with ZaZa.

According to recent filings, that merger should be completed this month, December 2011. The new company will trade under the symbol ZAZA. ZaZa gets 75% of the newco, but McKenzie will remain as CEO.

According to merger documents, by the end of 2013 the new ZaZa will be looking at a combined production of 6000 boe/d, fully paid for by its JV partner, Hess. With production today at about 900 boe/d, that represents a six-fold increase in the near future, and an even greater increase in cash flow given the current price of oil and the fact that capital will be provided by its partner.

How do they get there from here? By combining an estimated 1,000 boe/d from the Paris Basin with nearly 5,000 boe/d from the Eagle Ford post-combination, plus any production they get from their 100% owned Eaglebine property—or other acquisitions. By 2013, the new ZaZa will drill and complete an estimated 280 wells in the Eagle Ford alone—all paid for by Hess.

Hess will spend $2.5 BILLION in the next two years, before Dec 31, 2013, on ZaZa's Eagle Ford shale properties. ZaZa entered the play early, grabbing 14,000 gross acres, and then adding 109,000 acres with Hess. Hess can earn 90% of this by spending the money. To date, ZaZa has drilled 25 wells and has completed approximately twelve in the Eagle Ford with a 100% success rate and the wells are producing above the industry average.

On top of that, ZaZa has 80,000 acres gross, 62,000 acres net, in the emerging Eaglebine play, which is really an Eagle Ford extension. The Eagle Ford started on the southern border of Mexico and has steadily trended north and east until reaching what is historically the Woodbine area.

Now the area is being relabeled as the Eaglebine as it heats up with Eagle Ford type activity. There are multiple horizons for oil and liquid rich gas in the play. ZaZa is an early mover in the region and is moving their first rig into the play in Q1 2012.

Production in the area ranges from 150-1350 bopd IP rates for oil, with most in the 600-1000 bopd range, and gas production as high as 19.2 million cubic feet per day IP rates.

The 6000 bopd target rate set by McKenzie doesn't include any production from the 100% ZaZa owned Eaglebine lands.

Based on Toreador's most recent corporate presentation, with nine conventional targets and three shales, the Eaglebine is probably more exciting to McKenzie's team than the core acreage in the Eagle Ford.

Early drilling results in this emerging region are intriguing, with one vertical well only a mile from ZaZa's acreage producing 900 bopd. McKenzie has stated that once the companies are combined he expects to grow the Eaglebine position to 100,000 acres in the near-term.

McKenzie has also been clear with investors that his job is not done, post-merger. With hundreds of small operators in Texas and limited capital, somebody like the new ZaZa can consolidate a lot of land and production. McKenzie wants to be that Somebody.

The role of consolidator won't come easy though. Surprisingly, capital is still very tight in the Eagle Ford--and as companies' leases expire over the coming years, many CEOs are desperate for funding. Despite the hot play and 100% success rate in the Eagle Ford, investment bankers aren't spilling their lattes from jumping all over E&P companies trying to give them money. There is money available but it's not cheap.

Because production in Eagle Ford is still young, and services supply is tight, that creates uncertainty. ZaZa has distinguished itself as being a fast executor and it has all the agreements with the suppliers. For any private small cap with expiring acreage, bypassing a traditional IPO by merging with a public company, as ZaZa did with Toreador, can be a good option.

As for France, the Paris Basin is now third in line for the new ZaZa. At Toreador's annual meeting this year, McKenzie said Toreador has identified 15 conventional prospects targeting 40 million barrels of reserves and will start drilling in early 2012.

Toreador also managed to extend its partnership with Hess to develop the Liassic resource. Hess will be operating a one-rig, six-well program, beginning in 2012. How the Liassic responds to horizontals without fracking will be the "tell" on whether this play can really get off the ground.

What's been happening in France since the fracking ban is also interesting. The media has been asking, was the government too rash? Is France missing out on something as the country now has a 19% unemployment rate? The nuclear industry has aging plants and they recently experienced their first radioactive incident. Rhetoric from the media and certain key politicians has been less rabid.

But until the French political will changes, it's truly Texas Tea Time for Toreador.

- Keith Schaefer
Editor/Publisher of the Oil & Gas Investments Bulletin

DISCLOSURE: Keith Schaefer owns Toreador Resources