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MORTGAGE

Agreement made as of the ___ day of October, 1995, by and among Applewood Farms, Inc., ("Debtor"), an Indiana corporation, and Zahn Associates, Inc. ("Agent"), a New Jersey corporation, with its offices at 1930 North Harlem Avenue, Suite 7, Elmwood Park, Illinois 60635

RECITALS:

The following facts are acknowledged by the parties as true and set forth the basis of this Agreement:

A. Debtor has decided to terminate its operations and sell and/or collect all of its assets. As a result, Agent was requested by a number of creditors of Debtor to attempt to establish a procedure which protects the interests of Debtor's creditors and allows for an orderly liquidation of Debtor's assets.

B. In order to provide a mechanism for payment of creditors, Debtor and Agent have entered into an Agreement dated September ____, 1995 (the "Agreement").

NOW, THEREFORE, in consideration of the matters recited above, and for other valuable consideration, the receipt and sufficiency of which are acknowledged, it is agreed as follows:

In order to secure the payment of the obligations under the Agreement, and to secure the payment of all other sums which may be at any time due under the Agreement or this Mortgage (collectively sometimes referred to herein as "Indebtedness"); and to secure the performance and observance of all the provisions contained in this Mortgage or the Agreement, and to charge the

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STATE OF INDIANA
LAKE COUNTY
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properties, interests and rights hereinafter described with such payment, performance and observance, and for other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Debtor DOES HEREBY MORTGAGE AND CONVEY unto Agent, its successors and assigns forever, the following described property, rights and interests (which are referred to herein as the "Premises"), all of which property, rights and interests are hereby pledged primarily and on a parity with the Land (as hereinafter defined) and not secondarily:

THE LAND located in the State of Indiana (the "Land") and legally described on Exhibit A attached hereto;

TOGETHER WITH all improvements of every nature whatsoever now or hereafter situated on the Land, and all fixtures and personal property of every nature whatsoever now or hereafter owned by Debtor and located on or used or intended to be used in connection with the Land or the improvements, or in connection with any construction thereon, and owned by Debtor, and all of Debtor's rights or payments now or hereafter made on such personal property or fixtures by Debtor or on its behalf (the "Improvements");

TOGETHER WITH all easements, rights of way, gores of land, streets, ways, alleys, passages, sewer rights, waters, water courses, water rights and powers, and all estates, rights, titles, interests, privileges, liberties, tenements, hereditaments and appurtenances whatsoever, in any way now or hereafter belonging, relating or appertaining to the Land, and the reversions, remainders, rents, issues and profits thereof, and all the estate, right, title, interest, property, possession, claim and demand whatsoever, at law as well as in equity, in and to the same;



TOGETHER WITH all income from the Premises to be applied against the Indebtedness; and

TOGETHER WITH all proceeds of the foregoing, including, without limitation, all judgments, awards of damages and settlements hereafter made resulting from condemnation proceeds or the taking of the Premises or any portion thereof under the power of eminent domain, any proceeds of any policies of insurance maintained with respect to the Premises or proceeds of any sale, option or contract to sell the Premises or any portion thereof.

TO HAVE AND TO HOLD the Premises unto the Agent, its successors and assigns, forever, for the purposes herein set forth together with all right to possession of the Premises after the occurrence of any Default as hereinafter defined; Debtor hereby **RELEASING AND WAIVING** all rights under and by virtue of the homestead exemption laws of the State of Indiana.

Debtor **COVENANTS** that it is lawfully seized of the Land, and that it has lawful authority to mortgage the same, and that it will warrant and defend the Land and the quiet and peaceful possession of the same against the lawful claims of all persons whomsoever.

PROVIDED, NEVERTHELESS, that if Debtor shall pay in full the Indebtedness and shall timely perform and observe all of the provisions herein and in the Agreement provided to be performed and observed by Debtor, then this Mortgage and the interest of Agent in the Premises shall cease and become void, but shall otherwise remain in full force.

Debtor FURTHER AGREES AS FOLLOWS:

1. **Payment of Indebtedness and Performance of Covenants.** Debtor shall punctually perform and observe all of the requirements of the Agreement and this Mortgage.

2. **Liens, Prohibition.** Subject to the provisions of Paragraph 3 hereof, Debtor shall not create or suffer or permit any encumbrance to attach to or be filed against the Premises, excepting only (i) the lien of real estate taxes and assessments not due (ii) the lien of First Federal and (iii) any liens and encumbrances of Agent.

3. **Proceeds of Insurance.** Debtor will give Agent prompt notice of any loss or damage to the Premises, and:

3.1 In case of loss covered by insurance policies, Agent (or, after entry of decree of foreclosure, the purchaser at the foreclosure sale or decree creditor, as the case may be) is hereby authorized to settle and adjust any claim under such policies without the consent of Debtor.

3.2 Agent may apply the proceeds of insurance consequent upon any Insured Casualty upon the Indebtedness in such order as Agent may elect.

4. **Condemnation and Eminent Domain.** All awards (the "Awards") made to the owner of the Premises, by any governmental or other lawful authority for the taking, by condemnation or eminent domain, of all or any part of the Premises, are hereby assigned by Debtor to Agent. Agent is hereby authorized to give appropriate acquittances therefor. Debtor shall immediately notify Agent of the actual or threatened commencement of any condemnation or eminent domain proceedings affecting the Premises and shall deliver to Agent copies of any

papers served in connection with any such proceedings. Debtor shall make and deliver to Agent, at any time upon request, free of any encumbrance, all further assignments and other instruments deemed necessary by Agent for the purpose of assigning all Awards to Agent. After deducting from the Award for such taking all of its expenses incurred in the collection and administration of the Award, including attorneys' fees, Agent shall be entitled to apply the net proceeds toward repayment of such portion of the Indebtedness as it deems appropriate without affecting the lien of this Mortgage.

5. Restrictions on Transfer. Debtor, without the prior written consent of Agent, shall not effect, suffer or permit any "Prohibited Transfer" (as defined herein). Any conveyance, sale, assignment, transfer, lien, pledge, mortgage, security interest or other encumbrance or alienation (or any agreement to do any of the foregoing) of any of the following properties, rights or interests shall constitute a "Prohibited Transfer":

5.1 The Premises or any part thereof or interest therein;

5.2 All or any portion of the beneficial interest or power of direction in or to the trust under which Debtor is acting, if Debtor is a Trustee;

5.3 Any shares of capital stock of a corporation which is a beneficiary of a trustee Debtor, a corporation which is a general partner in a partnership beneficiary of a trustee Debtor, or a corporation which is the owner of substantially all of the capital stock of any corporation described in this subparagraph (other than the shares of capital stock of a corporate trustee or a corporation whose stock is publicly traded on a national securities exchange or on the National Association of Securities Dealers' Automated Quotation System); or

5.4 All or any part of the partnership or joint venture interest, as the case may be, of a partnership beneficiary of a trustee Debtor;

in each case whether any such conveyance, sale, assignment, transfer, lien, pledge, mortgage, security interest, encumbrance or alienation is effected directly, indirectly, voluntarily or involuntarily, by operation of law or otherwise; provided, however, that the foregoing provisions of this Paragraph 5 shall not apply (i) to liens securing the Indebtedness, (ii) to the lien of current taxes and assessments not in default, or (iii) to any transfers of the Premises, or part thereof, or interest therein, or any beneficial interests, or shares of stock or partnership or joint venture interests, as the case may be, by or on behalf of an owner thereof who is deceased or declared judicially incompetent, to such owner's heirs, legatees, devisees, executors, administrators, estate or personal representatives.

6. **Defaults.** If one or more of the following events (herein called "Defaults") shall occur:

6.1 If Debtor, after the expiration of any applicable grace periods, shall fail to make payments of amounts owed under the Agreement or this Mortgage when due;

6.2 If any default, after the expiration of any applicable grace periods, shall exist under any other document or instrument regulating, evidencing, securing or guarantying any of the Indebtedness;

6.3 A Prohibited Transfer;

6.4 If default shall continue for fifteen (15) days after notice thereof by Agent to Debtor in the punctual performance or observance of any other agreement or condition herein contained; then Agent, at its option and without affecting the lien hereby created

or the priority of said lien or any other right of Agent hereunder, may declare, without further notice, all Indebtedness to be immediately due, whether or not such Default is thereafter remedied by Debtor, and Agent may proceed immediately to foreclose this Mortgage and to exercise any right provided by this Mortgage, the Agreement or otherwise.

7. **Foreclosure.** When the Indebtedness shall become due, whether by acceleration or otherwise, Agent shall have the right to foreclose the lien hereof in accordance with applicable law and to exercise any other remedies of Agent provided in the Agreement, this Mortgage, or which Agent may have at law, in equity or otherwise. In any suit to foreclose the lien hereof, there shall be allowed and included as additional Indebtedness in the decree of sale, all expenditures and expenses which may be paid or incurred by or on behalf of Agent for attorneys' fees, appraisers' fees, outlays for documentary and expert evidence, stenographers' charges, publication costs, costs (which may be estimated as to items to be expended after entry of the decree) of procuring all such abstracts of title, title searches and examinations, title insurance policies, and similar data and assurance with respect to title as Agent may deem reasonably necessary either to prosecute such suit or to evidence to bidders at sales which may be had pursuant to such decree the true conditions of the title to or the value of the Premises, and any other expenses and expenditures which may be paid or incurred by or on behalf of Agent to be included in such decree.

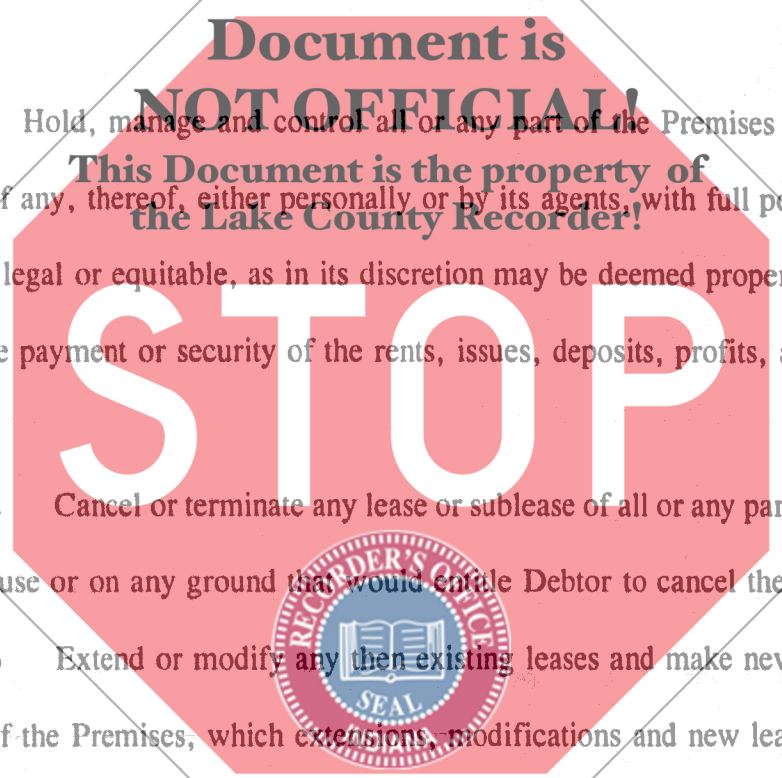
8. **Right of Possession.** When the Indebtedness shall become due, whether by acceleration or otherwise, or if Agent has a right to institute foreclosure proceedings, Debtor,

forthwith upon demand of Agent, shall surrender to Agent, and Agent shall be entitled to be placed in possession of the Premises as provided in the Act and Agent, in its discretion and pursuant to court order, may reasonably, by its agent or attorneys, enter upon and take and maintain possession of all or any part of the Premises, together with all documents, books, records and accounts of Debtor or the then owner of the Premises relating thereto, and may exclude Debtor, such owner, and any agents and servants thereof wholly therefrom and, on behalf of Debtor or such owner, or in its own name as Agent and under the powers herein granted may:

8.1 Hold, manage and control all or any part of the Premises and conduct the business, if any, thereof, either personally or by its agents, with full power to use such measures, legal or equitable, as in its discretion may be deemed proper or necessary to enforce the payment or security of the rents, issues, deposits, profits, and avails of the Premises;

8.2 Cancel or terminate any lease or sublease of all or any part of the Premises for any cause or on any ground that would entitle Debtor to cancel the same;

8.3 Extend or modify any then existing leases and make new leases of all or any part of the Premises, which extensions, modifications and new leases may provide for terms to expire, or for options to lessees to extend or renew terms to expire, beyond the maturity date of the loan evidenced by the Agreement and the issuance of a deed to a purchaser at a foreclosure sale, it being understood and agreed that any such leases, and the options or other such provisions to be contained therein, shall be binding upon Debtor, all persons whose interests in the Premises are subject to the lien hereof, and the



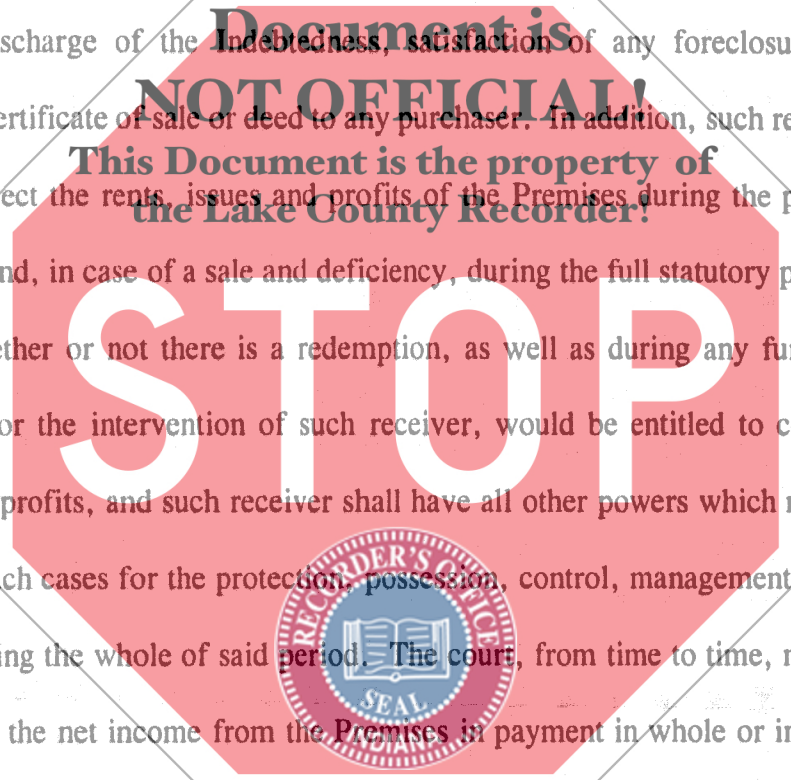
purchaser at any foreclosure sale, notwithstanding any redemption from sale, reinstatement, discharge of the Indebtedness, satisfaction of any foreclosure decree, or issuance of any certificate of sale or deed to any such purchaser; and

9.4 Make all necessary or proper repairs, decoration renewals, replacements, alterations, additions, betterments and improvements in connection with the Premises as may seem judicious to Agent, to insure and reinsure the Property and all risks incidental to Agent's possession, operation and management thereof, and to receive all rents, issues, deposits, profits and avails therefrom.

Without limiting the generality of the foregoing, Agent shall have all power, authority and duties as provided in applicable law. Nothing herein contained shall be construed as constituting Agent a mortgagee in possession in the absence of the actual taking of possession of the Premises.

9. Receiver. Upon the filing of a complaint to foreclose this Mortgage or at any time thereafter, the court in which such complaint is filed may appoint upon petition of Agent, and at Agent's sole option, a receiver of the Premises pursuant to applicable law. Such appointment may be made either before or after sale, without notice, without regard to solvency or insolvency of Debtor at the time of application for such receiver, and without regard to the then value of the Premises or whether or not the same shall be then occupied as a homestead; and Agent hereunder or any employee or agent thereof may be appointed as such receiver. Such receiver shall have all powers and duties prescribed by applicable law, including the power to make leases to be binding upon all parties, including the Debtor, the purchaser at a sale pursuant to a judgment of foreclosure and any person acquiring an interest in the Premises after entry of a judgment of foreclosure, all as provided in applicable law. In addition, such receiver shall

also have the power to extend or modify any then existing leases, which extensions and modifications may provide for terms to expire, or for options to lessees to extend or renew terms to expire, beyond the maturity date of the Agreement and beyond the date the issuance of a deed or deeds to a purchaser or purchasers at a foreclosure sale, it being understood and agreed that any such leases, and the options or other provisions to be contained therein, shall be binding upon Debtor and all the persons whose interest in the Premises are subject to the lien hereof and upon the purchaser or purchasers at any foreclosure sale, notwithstanding any redemption, reinstatement, discharge of the Indebtedness, satisfaction of any foreclosure judgment, or issuance of any certificate of sale or deed to any purchaser. In addition, such receiver shall have the power to collect the rents, issues and profits of the Premises during the pendency of such foreclosure suit and, in case of a sale and deficiency, during the full statutory period of redemption, if any, whether or not there is a redemption, as well as during any further times when Debtor, except for the intervention of such receiver, would be entitled to collection of such rents, issues and profits, and such receiver shall have all other powers which may be necessary or are usual in such cases for the protection, possession, control, management and operation of the Premises during the whole of said period. The court, from time to time, may authorize the receiver to apply the net income from the Premises in payment in whole or in part of: (a) the Indebtedness or the indebtedness secured by a decree foreclosing this Mortgage, or any tax, special assessment or other lien which may be or become superior to the lien hereof or of such decree, provided such application is made prior to the foreclosure sale; or (b) the deficiency in case of a sale and deficiency.



10. Insurance During Foreclosure. In case of an insured loss after foreclosure proceedings have been instituted, the proceeds of any insurance policy, shall be used to pay the amount due in accordance with any decree of foreclosure that may be entered in any such proceedings, and the balance shall be paid as the court may direct. The foreclosure decree may provide that the mortgagee's clause attached to each of the casualty insurance policies may be cancelled and that the decree creditor may cause a new loss clause to be attached to each of said casualty insurance policies making the loss thereunder payable to said decree creditors. The foreclosure decree may further provide that in the case of one or more redemptions under said decree, each successive redeemer may cause the preceding loss clause attached to each casualty insurance policy to be cancelled and a new loss payable clause to be attached thereto, making the loss thereunder payable to such redeemer. In the event of foreclosure sale, Agent, without the consent of Debtor, may assign any insurance policies to the purchaser at the sale, or take such other steps to protect the interest of such purchaser.

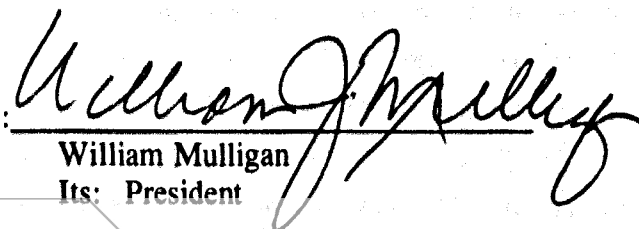
11. Waiver of Right of Redemption and Other Rights. To the full extent permitted by law, Debtor agrees that it will not at any time or in any manner whatsoever take any advantage of any stay, exemption or extension law or any so-called "Moratorium Law" now or at any time hereafter in force, or take any advantage of any law now or hereafter in force providing for the valuation or appraisal of the Premises, or any part thereof, prior to any sale thereof to be made pursuant to any provisions herein contained, or to any decree, judgment or order of any court of competent jurisdiction; or after such sale, claim or exercise any rights under any statute now or hereafter in force to redeem the property so sold, or any part thereof,

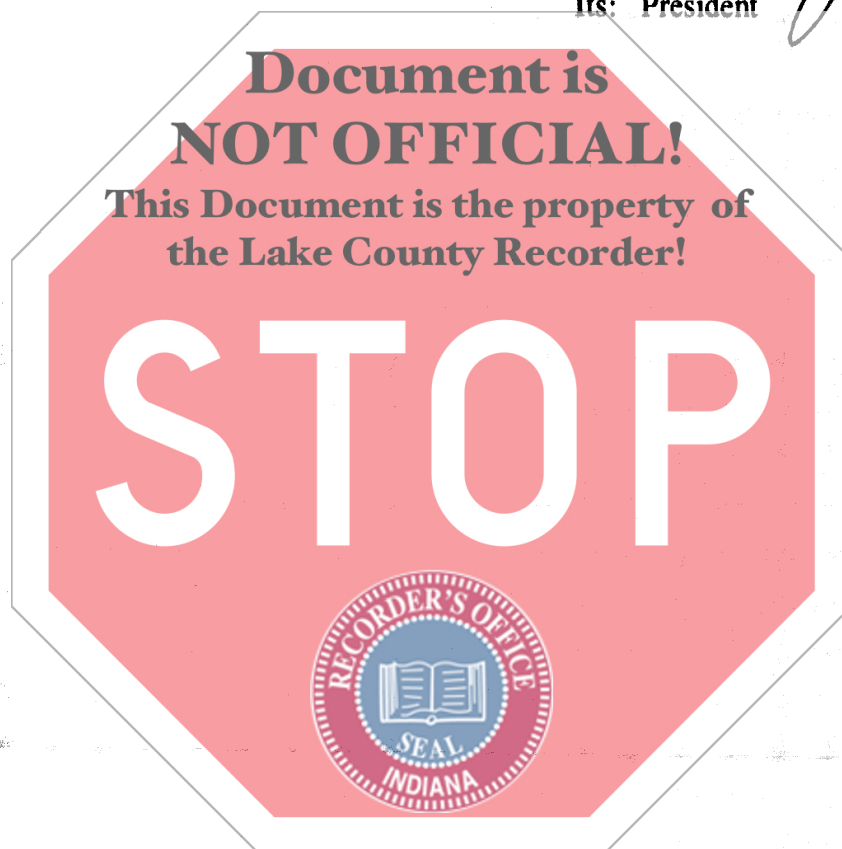
or relating to the marshalling thereof, upon foreclosure sale or other enforcement hereof. To the full extent permitted by law, Debtor hereby expressly waives any and all rights it may have to require that the Premises be sold as separate tracts or units in the event of foreclosure. To the full extent permitted by law, Debtor hereby expressly waives any and all rights of redemption, on its own behalf, on behalf of all persons claiming or having an interest (direct or indirect) by, through or under Debtor and on behalf of each and every person acquiring any interest in or title to the Premises subsequent to the date hereof, it being the intent hereof that any and all such rights of redemption of Debtor and such other persons are and shall be deemed to be hereby waived to the full extent permitted by applicable law. To the full extent permitted by law, Debtor agrees that, by invoking or utilizing any applicable law or laws or otherwise, it will not hinder, delay or impede the exercise of any right, power or remedy herein or otherwise granted or delegated to Agent, but will permit the exercise of every such right, power and remedy as though no such law or laws have been or will have been made or enacted. To the full extent permitted by law, Debtor hereby agrees that no action for the enforcement of the lien or any provision hereof shall be subject to any defense which would not be good and valid in an action at law upon the Agreement.

12. Rights Cumulative. Each right herein conferred upon Agent is cumulative and in addition to every other right provided by law or in equity, and Agent may exercise each such right in any manner deemed expedient to Agent. Agent's exercise or failure to exercise any

right shall not be deemed a waiver of that right or any other right or a waiver of any default. Except as otherwise specifically required herein, Agent is not required to give notice of its exercise of any of its right under this Mortgage.

APPLEWOOD FARMS, INC.

By: 
William Mulligan
Its: President



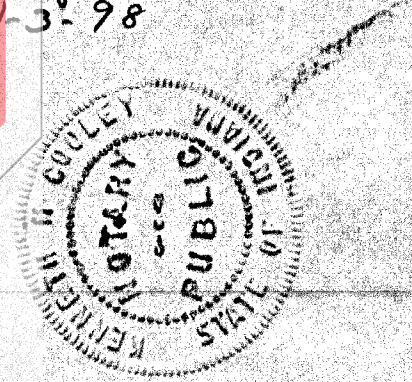
STATE OF _____)
) SS.
COUNTY OF _____)

I HEREBY CERTIFY that on this 10th day of Oct., 1995, before me a Notary Public for the state and county aforesaid, personally appeared William J. Mulligan known to me or satisfactorily proven to be the same person whose name is subscribed to the foregoing instrument, who acknowledged that he/she is the President of Applewood Farm that he/she has been duly authorized to execute, and has executed, such instrument on its behalf for the purposes therein set forth, and that the same is its act and deed.

IN WITNESS WHEREOF, I have set my hand and Notarial Seal the day and year first above written.



Kenneth M. Cooley
Notary Public
TERM EXPIRES 1-3-98



PREPARED BY AND MAIL TO:
Leroy G. Inskeep
RUDNICK & WOLFE
203 North LaSalle Street
Suite 1800
Chicago, IL 60601

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EXHIBIT A

That part of the Northeast 1/4 of the Northeast 1/4 of Section 25, Township 36 North, Range 8 West of the 2nd Principal Meridian, in the Town of New Chicago, Lake County, Indiana, lying Northeast of the right of way of the Pittsburg, Fort Wayne and Chicago Railroad.

