



PARTNER SOURCED INGREDIENTS

Quality. Honesty. Trust. Verified.



2019 Annual Report



CONTENTS

LETTER FROM OUR CHAIRMAN	1
PROGRAM OBJECTIVES AND GUIDING PRINCIPLES	2
SOWNAKED™ OATS	4
High-protein Oats	5
SowNaked™ Oats Partner Profiles	6
MIT Sloan Sustainability Study	8
PARTNER PROFILE OVERVIEW	10
Abunda S.A & Irupe	11
Siko Ltd.	12
Spokane Seed Company	13
METRIC SUMMARY	14

Letter from our Chairman



Last year, Bay State Milling celebrated its 120th anniversary.

Since our founding in 1899, innovation, partnering, quality and safety have been at the foundation of all that we do. Our award-winning SowNaked™ oat product speaks to the first part of that foundation, but there's a lot more to the Bay State story that demonstrates why we are a bit different from most other companies in the food ingredient space.

It all started with my great grandfather, who in his founder's statement, laid out a vision that was prescient then and just as fresh today. He said "We are firm believers that there is always room at the top; that there is always a demand for a gilt-edge article. Our chances for success are vastly increased if we produce a grade of product that few, if any, competitors can match. It's usually slow work to introduce an article of this character for the reason that it costs more to produce it than an inferior or commonplace article. But once [you] secure an opening and its merit is recognized, you hold your trade very much closer than your competitors do." While that's certainly a way to describe innovation, the three other elements that have cemented the foundation of Bay State—Partnering, Quality and Safety—are just as meaningful in today's ever-changing world, where our natural resources are at risk, food quality issues make front-page news and demand for safe products explodes.

So, in our third Partner Sourced Ingredients Annual Report, we wanted to reaffirm our commitment to those three key principles and take it to the next level. We're doing that by holding ourselves accountable for employing sustainable business practices and developing and nurturing relationships with the partners and communities where we source our ingredients, and in so doing, creating positive change in the industry and a better experience for our customers and consumers.

In the pages that follow, we celebrate a few of those partners who are helping us improve the quality and safety of one of our most promising new products. Our SowNaked™ oats provide a tangible illustration of how we are impacting the communities of growers and partners that are vital to our business and the greater agricultural economy that sustains us all.

We hope you enjoy the report.

Sincerely,

A handwritten signature in blue ink, reading "Brian Rothwell".

Brian Rothwell, Chairman



A GLOBAL SUPPLY OF SPECIALTY INGREDIENTS





CARAWAY
Finland



BUCKWHEAT
Netherlands



SUNFLOWER SEED
Bulgaria



POPPY
Spain



PUMPKIN SEED
China



**AMARANTH
& SESAME**
India



CINNAMON
Indonesia

Bay State Milling partners directly with suppliers and growers across five continents to source the highest quality specialty grains and seeds.

PROGRAM OBJECTIVES

To ensure a reliable supply of consistent quality ingredients.

To select, develop and partner with suppliers that operate ethically and honorably.

To develop differentiated supply chains that provide competitive advantage to Bay State Milling.

To provide our customers and employees with a tangible understanding of the distinctive attributes of our Supply Chain Partnerships.

GUIDING PRINCIPLES

Partnering

We are not traders. We develop lasting partnerships with our ingredient suppliers. We share in their challenges and benefit from their success. We are actively engaged in providing resources and support to enable them to improve operational processes, enhance product quality systems and develop new supply chains. Our supply chain partners are an extension of our business. Their business practices must align with our values.

Quality

We continue to believe in the Founder's Statement and seek to position our products as a *gilt-edged article* of premium quality. Our product quality begins with and is dependent upon our Supply Chain Partnerships. We take product specifications seriously. We begin customer engagements with a discussion about the product specification and our supply chain capabilities.

Honesty

We try to be objective and use meaningful metrics that demonstrate the distinct value of our Supply Chain Partnerships to all of our stakeholders.



SowNaked™ Oats

SowNaked™ oats are the perfect example of Bay State Milling putting the mission of Partner Sourced Ingredients and our sustainability program into practice. In 2019, we visited a number of partners who are instrumental to making the SowNaked™ oats product line a success and we partnered with MIT Sloan School of Management to conduct a sustainability study.



HIGH-PROTEIN OATS

Oat storage bins at Montana Gluten Free Processors, Belgrade, Montana

The Perfect Oat

SowNaked™ oats are a new, identity-preserved variety of hull-less oats that deliver 45% more protein than traditional oats and complies with the Purity Protocol Gluten Free standard of less than 5 parts per million of gluten.

With 30% less mass, SowNaked™ oats reduce farm storage needs, transportation, and fuel, all while providing higher retains for growers. And since they are harvested without the hull, we can eliminate the energy intensive steps of hulling and kilning, which results in a carbon footprint reduction of 48% compared to traditional oats.

We have three key social and environmental goals with our SowNaked™ oats program:



Develop markets to support our supply chain partners' full rotation of organic and gluten-free crops that improve soil health.



Balance the distribution of value across the supply chain with a focus on grower returns.



Invest in rural community infrastructure to support identity preserved crops.

SOWNAKED™ OATS PARTNER PROFILES



Montana Gluten Free Processors • Belgrade, MT

Since 2015, Montana Gluten Free has been an invaluable SowNaked™ Oats partner, enabling the commercialization of our revolutionary oat. They operate a 'Farm to Fork' system to grow, clean, store, process and market gluten-free oats. Their oats are naturally gluten-free and contain less than 3ppm of gluten. They only plant in fields that have not contained gluten grains for at least four years.

Prior to harvesting, each field is walked and hand-rogued twice to ensure that no gluten grains are present. Only dedicated gluten-free farm equipment is used to harvest and transport the oats. And the processing facility in Belgrade, MT is dedicated and certified gluten-free. Most importantly, Montana Gluten Free's variety of hull-less oat contains more protein and soluble fiber than a traditional oat, a real, tangible benefit for consumers interested in eating healthier, nutrient-dense foods.



INTERVIEW WITH GARY IVERSON | CEO, Montana Gluten Free Processors

Q: How has your relationship with Bay State Milling affected your business?

A: It has caused massive growth of our business in order to meet the growing demands of the high-protein gluten-free SowNaked™ oat in markets that a small company like MGF can't access.

Q: How would you describe your relationship with Bay State Milling?

A: We have an excellent relationship. BSM has been able to provide technical answers for qualities of our hull-less oats that we knew existed but could not prove. And they have opened up new horizons that we did not foresee.

Q: Are there any challenges to working with us?

A: Yes, how do we find new markets for SowNaked™ oats and stay financially stable? We have put our trust in BSM. Our future is tied to the success of SowNaked™ oats.

Q: What are your long-term goals?

A: Build MGF into a successful, sustainable company that promotes a healthy, gluten-free lifestyle for consumers and provides the economic stability and community foundation for our families and the family farms that are the lifeblood of our business.

Q: What things can we do to ensure its success?

A: Continue to guide and support us as we build grower relationships, processing capabilities and research.

Q: How do SowNaked™ oats help farmers practice more sustainable farming?

A: SowNaked™ oats are an excellent crop to assist farmers to better manage their land because it forces them to rotate crops in order to clean up their land to be able to produce gluten-free SowNaked™ oats. It also requires them to increase fertility in order to provide high-protein levels. These are all good management practices.



Matthew & Sonia Johnson · Hinsdale, MT

Matt and Sonia Johnson are committed to organic farming and have become the best-in-class model for Montana farmers looking to pursue higher value options to conventional row crops. At this year's Organic Field Day tour, Matt proudly displayed his 500 acres of Organic SowNaked™ oats contracted by Bay State Milling. When asked by the 100+ farmers in attendance if he could possibly increase yields beyond the 30 bushels he was getting, Matt replied, "40 bushels of these oats will buy you land."



M&L Farms · Choteau, MT

M&L Farms in Choteau, Montana is where Mark, Lyla and Sam Armstrong grow SowNaked™ oats for Bay State Milling. Mark struggled with multiple sclerosis for many years before switching to a gluten-free diet made up in part of SowNaked™ gluten-free oats. Mark credits his gluten-free diet for minimizing his MS symptoms. Last spring, the Armstrongs hosted a group of MIT graduate students surveying the social and economic impact of our grower programs.



O'Hara Land & Cattle · Fort Benton, MT

O'Hara Land & Cattle farms 15,000 acres in the heart of the Golden Triangle. Patriarch Mike O'Hara and his sons Heath and Hardy have equal votes in all business decisions. The younger O'Haras have convinced Mike that growing specialized, high-protein crops is a key to their future. This year the O'Haras planted 1,600 acres of SowNaked™ oats and 300 acres of Desi chickpeas for Bay State Milling.



Trevor and Cassie Smieja · Bozeman, MT

Just outside of Bozeman, the Smieja family grows both conventional and organic SowNaked™ oats for Bay State Milling. With close ties to Montana State University, the developer of the SowNaked™ oat, Trevor feels the opportunity to experiment with novel seed traits and techniques like gluten-free farming will make it possible for the younger generation of farmers to continue. If you visit Trevor and Cassie's farm, make sure to see the house from the movie *A River Runs Through It*.



The MIT S-Lab team visiting the O'Hara Land & Cattle Farm in Fort Benton, MT

MIT SLOAN SUSTAINABILITY STUDY



In 2019, we partnered with the Sustainability Lab at MIT Sloan School of Management to conduct a sustainability study of our SowNaked™ oats. The student-consultants visited with our oat growers in Montana to determine what the environmental and social impact of this highly innovative product line might be.

We uncovered a number of benefits

- Yields a higher price per acre than other crops, promoting stability to their businesses
- Changes in farming practices like crop rotation and organic improve long-term soil health and resilience
- Harnesses the unique characteristics of the Montana terrain
- Supports Montana grower community by building new relationships and supply chains

- Innovative products make it possible for younger generations of farmers to continue
- Opportunity to experiment and learn new growing techniques
- Improved freight and transportation efficiency because hull-less oats have less mass than oats with hulls
- 48% carbon footprint reduction vs. traditional oats

But we also uncovered some challenges that we can partner with our growers to solve

- Going gluten-free takes additional time and effort (e.g. fields need to be without gluten crops for at least 3 years, added field and machinery cleaning, etc.)
- Learning curve to integrate an unfamiliar product into supply chains
- Yields are inconsistent year over year because of climate change, pest and weather events

CO₂e EMISSIONS: SowNaked™ Oats vs. Hulled Oats

MIT Sloan School of Management constructed a comparison model to measure total CO₂e* produced in the supply chains of traditional hulled oats and Bay State Milling's SowNaked™ oats.

Transportation

SowNaked™ Oats



83,000

MILES TRAVELED



232,000

LBS OF CO₂e PRODUCED

Hulled Oats



135,000

MILES TRAVELED



377,000

LBS OF CO₂e PRODUCED

Processing



0

LBS OF STEAM PRODUCED



0

LBS OF CO₂e PRODUCED



618,000

LBS OF STEAM PRODUCED



67,000

LBS OF CO₂e PRODUCED

* CO₂e, or carbon dioxide equivalent, is a standard unit for measuring carbon footprints. The idea is to express the impact of each different greenhouse gas in terms of the amount of CO₂ that would create the same amount of warming. That way, a carbon footprint consisting of lots of different greenhouse gases can be expressed as a single number.



Partner Profile Overview

In 2019, we built new relationships and fostered old ones with suppliers all over the world, from exotic locales like Argentina and Bulgaria to those closer to home, like Montana and Nebraska. Regardless of their location, the common thread is partnership, and we are truly grateful for their hard work and dedication to growing and strengthening our partnership. In this section, we will highlight three of those partners, Abunda S.A and Irupe in Parguay, SiKo Ltd. in Bulgaria, and Spokane Seed in Washington.



ABUNDA S.A & IRUPE



On a recent trip to South America, we visited Abunda S.A and Irupe, new supply partners for our growing chia business. Based in Paraguay, Abunda exports chia, sesame, teff and rice, working with suppliers and directly with farms. Irupe, established in 2009, is one of their main suppliers of chia in Paraguay. Irupe works directly with a select group of growers and small farms in Paraguay and Argentina. They provide organic certified ingredients, primarily chia and sesame, but also teas, herbs, and citrus.

We visited them at their chia processing facility in Asuncion. During our visit it was clear that they take quality and food safety very seriously. Lot numbers are maintained all the way from the cleaning process and storage of the product to the final bagging and stuffing of the container. They keep traceability records for all products that enter and leave their warehouses.

They are able to do this by labeling all of their pallets and tracking the raw material that goes on each one. Irupe employs their own agronomists who help producers improve farming practices and overall farm management.

LOCATION

Paraguay

PRODUCT

Chia

-  Family-run
-  Organic certified
-  Traceability recording

During our visit it was clear that they take quality and food safety very seriously.



SIKO LTD.



SiKo Ltd. was established in 2006 by Janka Konstantinova, who founded the company after many years in agriculture prior to Bulgaria's independence in 1991. Sunflower had always been popular in Bulgaria due to its oil content, but it wasn't until demand began increasing for the hulled kernel that Janka began her small family business.

Janka's daughter, Galina Dimintrova became involved quickly after its establishment and their business began to grow. Much of their success is due to their long-standing relationships with large grower cooperatives, some of which have been doing business with Janka for over 30 years.

The story with Bay State began in 2015, when our team first visited Bulgaria in search of suppliers. The chance meeting had a lasting impression upon both parties and has flourished into a strong and productive relationship. We've grown together these past 5 years and our relationship has resulted in SiKo becoming one of the largest exporters of sunflower seeds in Bulgaria. They are now in the process of expanding their processing capabilities and storage.

LOCATION

Bulgaria

PRODUCT(S)

Sunflower seeds

 Family-owned & operated

 IFS, BRC, and Organic Certified

 5th largest hulled sunflower seed exporter in Bulgaria

"Customers like Bay State Milling, with your high-quality standards make us all better at what we do."

— GALINA DIMITROVA



SPOKANE SEED COMPANY



Founded in 1908, Spokane Seed Company is a fourth-generation family-owned and operated company in the Palouse region of the Pacific Northwest. For over 100 years they've specialized in the growing, processing and marketing of dry peas, lentils and chickpeas. Bay State Milling and Spokane Seed first crossed paths in 2014, when then CEO and now current chairman Pete Johnstone visited us at our Woodland, CA facility. "He expressed that Bay State Milling was the type of company Spokane preferred doing business with, one that was family-owned and built upon similar core values" Walker Humphries the former General Manager of our Mini Milling and Blending business explained.

"At the time, we really didn't have a lot of experience in handling or milling pulses" Humphries explained, "but after our visit from Pete our chickpea product line began picking up steam and we got back in touch with them." Since that time our relationship has flourished because of Spokane Seed's ability to embrace change and solve problems to help us meet the ever-evolving needs of our customers.

Our most recent collaboration resulted in an innovative hulling technology that will enable us to deliver more consistent taste, texture, functionality and nutrition as the demand for food applications utilizing chickpea flour continues to grow.

LOCATION

Washington

PRODUCT(S)

Chickpeas

 4th generation family-owned & operated

 Largest pulse producer in the Palouse region

 State-of-the-art chickpea decortication

"Pulses will have an important place in the future of food and agriculture."

— ANDREW FONTAINE, PRESIDENT AND GM, SPOKANE SEED

Metric Summary

In our Partner Sourced Ingredients program we evaluate ourselves on six key metrics to ensure that we are achieving rigorous standards of quality and partnership. We supply quality assurance files, visitor logs, trip reports and travel receipts to ACET Global, a third-party auditor and food safety consulting firm, that assists companies with gap assessments and the development, implementation and maintenance of global food safety programs.

1



VISIT 8 SUPPLIERS

We visit our supply chain partners to review business operations and offer resources.

2



HOST 3 SUPPLY CHAIN PARTNERS

Bay State Milling hosts at least 3 supply chain partner visits per year to our US facilities.

3



3 NON-PROCUREMENT EMPLOYEE SUPPLIER VISITS

We bring non-procurement employees to our suppliers to learn how important these relationships are and how they can help maximize the value of these partnerships.

4



VENDOR AND FACILITY RISK ASSESSMENTS

We conduct a comprehensive questionnaire focusing on key food safety and security processes.

5



95% OF ALL INGREDIENTS RECEIVED WITHIN SPEC

We work closely with supply partners, taking steps like further cleaning, processing or rejection if necessary.

6



PUBLISH AN ANNUAL REPORT

We work with ACET GLOBAL Consulting, LLC to develop and conduct a customized, objective examination of the Partner Sourced Ingredients Program.



Metric 1 : VISIT 8 SUPPLIERS

We visited 8 supply chain partners, reviewing business operations and offering resources and expertise to farmers and processors.

SUPPLIER	COUNTRY	COMMODITY	BSM PROCUREMENT TEAM MEMBERS
Agro Fergi	Peru	Quinoa	Brenden Olson, Miles Henderson
Abunda S.A & Irupe	Paraguay	Chia	Brenden Olson, Miles Henderson
Pacta/KHI	Argentina	Chia	Brenden Olson, Miles Henderson
Hagstrom Farms	USA	Millet	Andy Kosco
SiKo Ltd.	Bulgaria	Sunflower	Brenden Olson, Miles Henderson
Montana Gluten Free Processors	USA	Naked oats	Brenden Olson, Andy Kosco
Spokane Seed	USA	Chickpea	Brenden Olson, Jonathan Armstrong, Any Kosco
Probi	Czech Republic	Poppy	Brenden Olson, Miles Henderson



Metric 2 :

HOST 3 SUPPLY CHAIN PARTNERS

Bay State Milling hosts at least 3 supply chain partners per year at our US facilities, allowing us to solidify partnerships and share resources. It also gives our partners insight into the products and needs of our customers.

SUPPLIER	COUNTRY	COMMODITY	SUPPLIER REPRESENTATIVES	BSM FACILITY
Accura Organics	India	Sesame/ Amaranth/Flax	Deepak Vachhani	Bolingbrook, IL
Sesaco	USA	Sesame	Nathan Smith	Bolingbrook, IL
SiKo Ltd.	Bulgaria	Sunflower	Galina Dimitrova	Bolingbrook, IL



Metric 3 :

3 NON-PROCUREMENT EMPLOYEE SUPPLIER VISITS

Visits to suppliers by at least 3 non-procurement employees per year. Visits to our supply chain partners enable employees involved in Quality Assurance, Operations, Finance, R&D, Marketing and Sales to see first-hand how critical supply chain partnerships are, and how they can offer support.

SUPPLIER	COUNTRY	COMMODITY	BSM PROCUREMENT TEAM MEMBERS	NON-PROCUREMENT VISITORS
Hagstrom Farms	USA	Millet	Andy Kosco	Dave Sachs, <i>MMB General Manager</i>
Montana Gluten Free Processors	USA	Naked oats	Brenden Olson, Andy Kosco	Shanna Trausch, <i>Sales Emerging Accounts</i>
Spokane Seed	USA	Chickpea	Brenden Olson, Jonathan Armstrong, Andy Kosco	Shanna Trausch, <i>Sales Emerging Accounts</i>
SiKo Ltd.	Bulgaria	Sunflower	Brenden Olson, Miles Henderson	Sigita Gudeika, <i>Director of Quality Assurance</i>



Metric 4 :

VENDOR AND FACILITY RISK ASSESSMENTS

A comprehensive questionnaire focusing on key food safety and security processes must be completed by all existing and potential supply chain partners, and updated each year. Data collected is used to assess the risk profile of suppliers for partnership decisions and improvement opportunities.



100%

of our supply chain partners visited in 2019 completed a Vendor Facility and Risk Assessment audit.



Metric 5 :

95% OF ALL INGREDIENTS RECEIVED IN SPEC

95% of all ingredients received from our supply chain partners will be within the established product specification. In the rare instances where we receive raw materials that are out of specification, we work closely with supply partners, taking steps like further cleaning, processing or rejection if necessary.



99.6%

of Partner Sourced Ingredient shipments received from our partners met all specification criteria on receipt without further processing necessary.



Metric 6: PUBLISH AN ANNUAL REPORT

ACET GLOBAL Consulting, LLC is an industry-recognized consulting firm that takes a comprehensive approach to assessing food safety for a wide variety of organizations to help identify and mitigate risk within facilities and supply chains. The company was chosen by Bay State Milling for its knowledge and reputation within the food industry and its ability to conduct a customized objective examination of the Partner Sourced Ingredients Program. Their examination resulted in confirmation of the following:

METRIC 1

All 8

supplier locations were verified through flight receipts and trip documentation.

METRIC 2

3 out of 3

supply chain partner visits were confirmed by sign-in logs, meeting notes and documentation.

METRIC 3

At least 3

non-procurement visits to supplier locations were verified through flight receipts and trip documentation.

METRIC 4

100%

of supply chain partners completed an annual Vendor and Facility Risk Assessment verified by the ACET GLOBAL audit.

METRIC 5

99.6%

of ingredients received within spec confirmed through Receiving and Quality Assurance documentation.

METRIC 6

Published.

We published the 2019 Annual Report of the Partner Sourced Ingredients Program with supplier profiles.

ACKNOWLEDGMENT:

ACET GLOBAL team is headed by Ron Vail as President. Mr. Vail has over 38 years of experience in the food industry having held positions within Quality, Manufacturing and Procurement in both international food companies and industry organizations. His knowledge has earned him positions in worldwide consulting, education and training for the development and implementation of FSMA, HACCP, Food Safety, and pre-requisite programs and schemes for SQF, BRC and FSSC 22000.



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Bay State Milling is a family-owned company with a strategic intent to support the growth of the next generation of foods in North America by providing the leading array of plant-based ingredients. Since 1899, we have proudly provided exceptional quality flour and grain products, and we continue to build on our legacy as we bring new supply chains and technologies into our realm of capabilities.