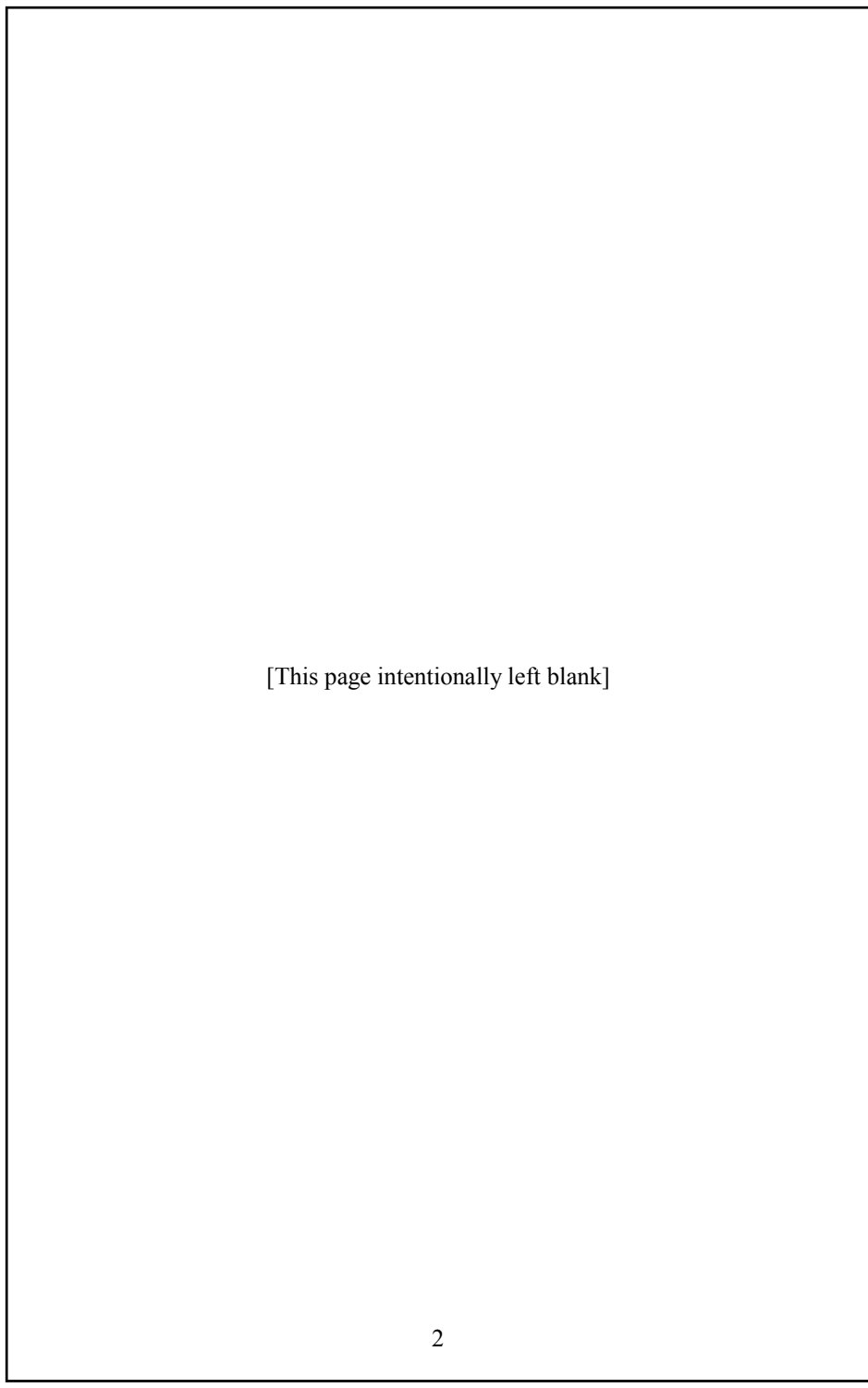


Aegis High Yield Fund

Second Annual Report

December 31, 2005



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Shareholders' Letter

February 16, 2006

To the Shareholders of the Aegis High Yield Fund:

We are pleased to present the Aegis High Yield Fund's Second Annual Report, for the year ended December 31, 2005.

We want to take this opportunity to welcome all of our new shareholders to the Fund. At any time, if you would like further information about the Fund, please go to our website at www.aegisfunds.com for a more detailed look at the high-yield bond market and the Fund's investment approach. For your benefit, we will review the objectives and strategy of the Aegis High Yield Fund.

The Aegis High Yield Fund seeks to earn consistent total returns in the market that exceed our benchmark over periods of three to five years, while striving for below-average risk compared to our peers. Our long-term investment strategy is based on our total return objective. We use in-depth fundamental analysis of issuers to identify bonds and build a portfolio with the potential for capital appreciation due to improved company performance, ratings upgrades, or better industry conditions. We seek situations where Wall Street's appraisal of a security's value is more negative than we have determined based upon an independent study of the facts. The bonds we purchase are not necessarily the highest yielding issues in the market. Our goal is to maximize risk-adjusted long-term total return.

The Fund commenced investment operations as of January 1, 2004. For the period ended December 31, 2005, the Aegis High Yield Fund posted a total return of 6.26 percent, compared to a total return of 2.74 percent for its benchmark, the Lehman U.S. Corporate High Yield Index. At December 31, the Fund's SEC-calculated portfolio yield was 6.80%.

The Fund's closing net asset value at the end of the period was \$10.17 per share, and the Fund paid investment income distributions of 54 cents per share and a capital gain distribution of 5 cents per share during the year.

The Fund's portfolio was in a somewhat cautious position at December 31, with a weighted average portfolio maturity of approximately three years and approximately 70% of its portfolio invested in securities with maturities of less than four years. The Fund's cash position was approximately 3% of its portfolio value.

We expect to maintain a cautious view over the coming year, based on a slowing economy and an expected higher default rate on corporate bonds. We expect the spread of high-yield bonds to Treasury yields to widen later this year, so we still believe that it is too early to become aggressive in the market.

The Fund's performance was aided in 2005 by its investments in the defaulted securities of Trico Marine and Southern Energy (Mirant). Gains on these positions allowed the Fund to show an increase in its NAV from \$10.14 to \$10.17 (after payment of 59 cents per share in income distributions and capital gains) during a year when most high-yield funds suffered declines in their prices. Another factor in our relative returns was the reduction in our cash position that improved our SEC-calculated portfolio yield from 3.1% to 6.8% at year-end.

We continue to look for select situations that have the potential for capital gains as part of our strategy to emphasize total return as well as current income in the Fund portfolio. At the same time, we also are focused on capital preservation for the remainder of 2006. We maintain our belief that better opportunities will be presented in the 2007-2008 timeframe.

A more in-depth review of the Fund's performance and outlook can be found in the Advisor's report that is provided to you separately. Our decision to use this particular format is a result of the Sarbanes-Oxley Act of 2002. Under the Act, mutual fund officers are required to certify the entirety of each Annual and Semi-Annual report. After some deliberation, we reached the conclusion that we are not in a position to certify data provided by third parties, nor will we certify any analysis and subjective conclusions drawn from such data.

Nonetheless, we strongly feel that a thoughtful and detailed discussion of current market conditions is important to our shareholders. Therefore, please continue to anticipate reading this more editorial type of commentary and analysis in the Advisor's Report in the future.

We are pleased to have you as an investor in the Fund, and thank you for your support.

Aegis Financial Corporation

William S. Berno, CFA

Managing Director, Portfolio Manager

Note: All historical performance returns shown in this shareholders' letter for the Aegis High Yield Fund are pre-tax returns. Returns include reinvestment of income and capital gains. Past performance is no guarantee of future results. Share prices will fluctuate, so that shares may be worth more or less than their original cost when redeemed.

About Your Fund's Expenses (Unaudited)

Important Note:

As a shareholder of the Fund, you incur ongoing costs, including management fees and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with ongoing costs of investing in other mutual funds. The example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire semi-annual period, July 1, 2005 - December 31, 2005.

Actual expenses

The table below provides information about actual account values and actual expenses.

Fund	<u>Actual</u>			<u>Hypothetical</u> (5% annual return before expenses)	
	Beginning Account Value (07/01/2005)	Ending Account Value (12/31/2005) ¹	Expenses Paid Dur- ing Period ²	Ending Account Value (12/31/2005)	Expenses Paid During Period ²
Aegis High Yield Fund	\$1,000.00	\$1,044.83	\$6.18	\$1,019.10	\$6.11

¹The actual ending account value is based on the actual total return of the Fund for the period July 1, 2005 to December 31, 2005 after actual expenses and will differ from the hypothetical ending account value which is based on the Fund's actual expense ratio and a hypothetical annual return of 5% before expenses. The actual cumulative returns at net asset value for the period July 1, 2005 to December 31, 2005 were 4.48%.

²Expenses are equal to the Fund's annualized expense ratio (1.20%) multiplied by the average account value over the period, multiplied by 184/365 (to reflect the period between 07/01/2005 and 12/31/2005).

You may use the information in this table, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the table under the heading entitled "Actual Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

Hypothetical example for comparison purposes

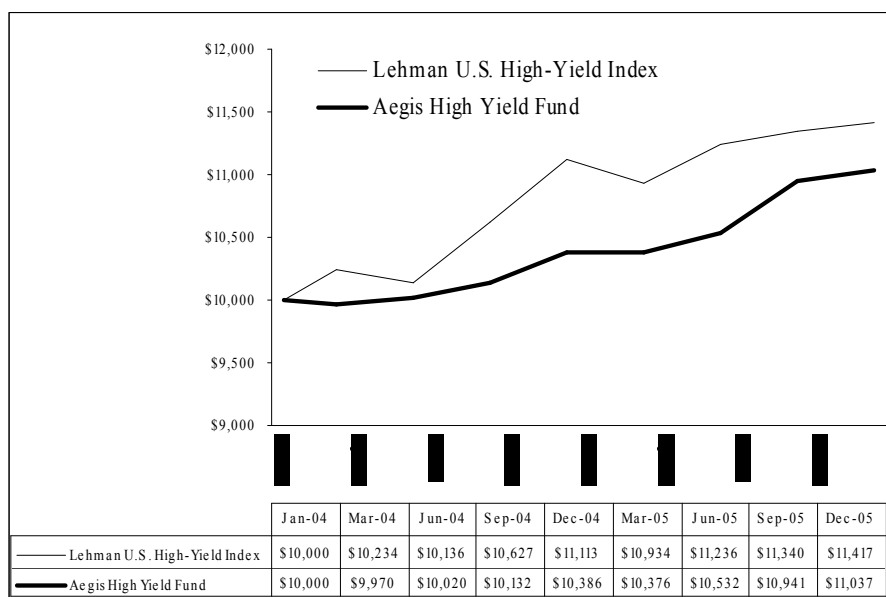
The table above also provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example

with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only. The Fund is a pure no-load fund and does not charge any sales charges (loads), distribution or service fees, or redemption fees.

Key Statistics

Results of a \$10,000 Investment



Average Annual Total Returns (As of December 31, 2005)

	<u>Aegis High Yield</u>	<u>Lehman HY Index</u>
Trailing 1 Year	6.26%	2.74%
Since inception (January 1, 2004)	5.06%	6.85%

Returns on both Aegis High Yield Fund and Lehman Index assume reinvestment of all dividends and distributions. Fund returns are after all expenses. Past performance is not predictive of future results. The returns shown do not reflect the deduction of taxes a shareholder would pay on the redemption of Fund shares or Fund distributions.

Portfolio Characteristics (Unaudited)

Industry Breakdown

Corporate Bonds		95.5%
Technology and Communications	18.2%	
Energy and Natural Resources	16.7%	
Retail and Wholesale	11.5%	
Financial Services	9.8%	
Healthcare Products and Services	7.6%	
Consumer Products	7.5%	
Consumer Services	7.5%	
Industrial Services	7.0%	
Industrial Cyclical	6.1%	
Transportation	3.6%	
Short-Term Investments		0.8%
Other Assets and Liabilities		<u>3.7%</u>
Total Net Assets		<u>100.0%</u>

Credit Quality - % of Corporate Bonds

BBB or Higher		0%
BB		19%
B		45%
CCC		22%
Below CCC or unrated		<u>14%</u>
Total		<u>100%</u>

Maturity (Or Most Likely Call) - % of Corporate Bonds

Less than 1 year		21%
1-3 years		49%
4-6 years		24%
7-10 years		3%
More than 10 years		<u>3%</u>
Total		<u>100%</u>

Aegis High Yield Fund
Schedule of Portfolio Investments
December 31, 2005

<u>Corporate Bonds - 95.5%</u>	<u>Principal Amount</u>	<u>Market Value</u>
<u>Industrial Cyclicals - 6.1%</u>		
Resolution Performance Sr. Sub. Notes 13.50% due 11/15/10	\$100,000	\$106,250
Tembec Industries Inc. Sr. Notes 8.625% due 6/30/09	100,000	<u>57,500</u>
		<u>163,750</u>
<u>Retail and Wholesale - 11.5%</u>		
Marsh Supermarkets Inc. Sr. Sub. Notes 8.875% due 8/1/07	125,000	118,125
Ingles Markets Inc. Sr. Sub. Notes 8.875% due 12/1/11	100,000	104,000
Finlay Fine Jewelry Corp. Sr. Notes 8.375% due 6/1/12	100,000	<u>90,500</u>
		<u>312,625</u>
<u>Financial Services - 9.8%</u>		
Ford Motor Credit Notes 6.50% due 1/25/07	100,000	96,771
GMAC Sr. Unsecured Notes 5.85% due 1/14/09	100,000	89,522
PMA Capital Sr. Notes 8.50% due 6/15/18	80,000	<u>79,840</u>
		<u>266,133</u>
<u>Transportation - 3.6%</u>		
Sea Containers Ltd. Sr. Notes 7.875% due 2/15/08	100,000	<u>96,375</u>
		<u>96,375</u>
<u>Industrial Services - 7.0%</u>		
Allied Waste N.A. Sr. Notes 6.50% due 11/15/10	100,000	99,500
Great Lakes Dredge & Dock Sr. Sub. Notes 7.75% due 12/15/13	100,000	<u>90,625</u>
		<u>190,125</u>
<u>Energy & Natural Resources - 16.7%</u>		
USEC Inc. Sr. Notes 6.625% due 1/20/06	100,000	100,000
El Paso Coastal Corp. 6.50% due 6/1/08	100,000	99,500
Southern Energy, Inc. Sr. Notes 144A 7.90% due 7/15/09*	200,000	<u>253,000</u>
		<u>452,500</u>
<u>Consumer Products - 7.5%</u>		
Tommy Hilfiger USA Inc. Notes 6.85% due 6/1/08	100,000	103,500
North Atlantic Trading Inc. Sr. Notes 9.25% due 3/1/12	150,000	<u>99,750</u>
		<u>203,250</u>

See page 14 for notes to the financial statements.

Aegis High Yield Fund
Schedule of Portfolio Investments
December 31, 2005

<u>Corporate Bonds - 95.5% (continued)</u>	<u>Principal Amount</u>	<u>Market Value</u>
<u>Consumer Services - 7.5%</u>		
Mohegan Tribal Gaming Auth. Sr. Sub. Notes 6.375% due 7/15/09	100,000	101,125
Service Corp. Intl. Sr. Unsec. Notes 6.50% due 3/15/08	100,000	<u>101,500</u>
		<u>202,625</u>
<u>Healthcare Products and Services - 7.6%</u>		
Healthsouth Corp. Sr. Notes 8.50% due 2/1/08	100,000	101,250
Biovail Corp. Sr. Sub. Notes 7.875% due 4/1/10	100,000	<u>104,125</u>
		<u>205,375</u>
<u>Technology and Communications - 18.2%</u>		
Nortel Networks Ltd. Notes 6.125% due 2/15/06	100,000	100,500
GTE Hawaiian Telephone Debentures 7.375% due 9/1/06	100,000	101,000
MCI Inc. Notes 6.908% due 5/1/07	100,000	101,000
Unisys Corp. Sr. Notes 7.875% due 4/1/08	100,000	98,750
Intelsat Ltd. Sr. Notes 5.25% due 11/1/08	100,000	<u>91,625</u>
		<u>492,875</u>
Total Corporate Bonds - (Cost \$2,570,726)		<u>2,585,633</u>
<u>Investment Companies - 0.8%</u>		
Federated Prime Obligations Fund	22,980	<u>22,980</u>
Total Investment Companies - (Cost \$22,980)		<u>22,980</u>
Total Investments - 96.3% (Cost \$2,593,706)#		<u>2,608,613</u>
Other Assets and Liabilities - 3.7%		<u>99,667</u>
Net Assets - 100.0%		<u>\$2,708,280</u>

* Non-income producing security due to default or bankruptcy

144A - Represents a security sold under Rule 144A that is exempt from registration and may be resold to qualified institutional buyers in accordance with the provisions of Rule 144A under the Securities Act of 1933, as amended.

Aggregate cost for tax purposes of \$2,593,706.

See page 14 for notes to the financial statements.

Aegis High Yield Fund
Statement of Assets and Liabilities
December 31, 2005

Assets

Investments at market value (cost \$2,593,706)	\$2,608,613
Cash	60,110
Interest and dividends receivable	<u>47,929</u>
Total assets	<u>2,716,652</u>

Liabilities

Payable to advisor	<u>8,372</u>
Total liabilities	<u>8,372</u>

<i>Net assets (266,231 shares of beneficial interest outstanding; unlimited number of shares authorized; no par value)</i>	<u>\$2,708,280</u>
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Net assets consist of:

Paid-in capital	\$2,687,033
Undistributed net investment income	6,340
Net unrealized appreciation	<u>14,907</u>

<i>Net assets</i>	<u>\$2,708,280</u>
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<i>Net asset value per share</i>	<u>\$10.17</u>
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See page 14 for notes to the financial statements.

Aegis High Yield Fund
Statement of Operations
For the Year Ended December 31, 2005

<i>Investment Income</i>	
Interest	<u>\$203,285</u>
Total income	<u>203,285</u>
<i>Expenses</i>	
Investment advisory fees	29,229
Transfer agency, accounting and administration fees	8,119
Registration fees	18,608
Custody fees	9,970
Printing and postage costs	639
Legal and auditing fees	42,822
Trustees fees	15,253
Insurance and other	<u>2,461</u>
Gross expenses	127,101
Less: fees paid indirectly	(37)
Less: fees reimbursed by investment advisor	<u>(88,092)</u>
Net expenses	<u>38,972</u>
<i>Net investment income</i>	<u>164,313</u>
<i>Realized and unrealized gain (loss) on investments</i>	
Net realized gain on investments	13,921
Change in unrealized appreciation of investments for the year	<u>(27,627)</u>
<i>Net realized and unrealized loss on investments</i>	<u>(13,706)</u>
<i>Net increase in net assets resulting from operations</i>	<u>\$150,607</u>

See page 14 for notes to the financial statements.

Aegis High Yield Fund
Statement of Changes in Net Assets
For the Years Ended

	December 31,	
	<u>2005</u>	<u>2004</u>
<i>Increase in net assets from operations</i>		
Investment income - net	\$164,313	\$59,660
Net realized gain on investments	13,921	2,431
Change in unrealized appreciation	<u>(27,627)</u>	<u>42,534</u>
Net increase in net assets resulting from operations	<u>150,607</u>	<u>104,625</u>
<i>Distributions</i>		
Investment income - net	(160,007)	(60,057)
Realized capital gains	<u>(13,921)</u>	<u>0</u>
Total distributions	<u>(173,928)</u>	<u>(60,057)</u>
<i>Capital share transactions*</i>		
Subscriptions	2,422,128	2,829,385
Distributions reinvested	164,109	60,057
Redemptions	<u>(2,888,622)</u>	<u>(24)</u>
Total capital share transactions	<u>(302,385)</u>	<u>2,889,418</u>
Total increase (decrease) in net assets	<u>(325,706)</u>	<u>2,933,986</u>
<i>Net assets at beginning of year</i>	<u>3,033,986</u>	<u>100,000</u>
<i>Net assets at end of year (including undistributed net investment income of \$6,340 and \$0, respectively)</i>	<u>\$2,708,280</u>	<u>\$3,033,986</u>
<i>*Share information</i>		
Subscriptions	239,535	283,275
Distributions reinvested	16,151	6,011
Redemptions	<u>(288,739)</u>	<u>(2)</u>
Net increase (decrease) in shares	<u>(33,053)</u>	<u>289,284</u>

See page 14 for notes to the financial statements.

Aegis High Yield Fund
Financial Highlights
For the Years Ended

The table below sets forth financial data for a share of the Fund outstanding throughout the year:

	December 31,	
	<u>2005</u>	<u>2004</u>
<i>Per share data:</i>		
Net asset value - beginning of year	<u>\$10.14</u>	<u>\$10.00</u>
Income from investment operations-		
Net investment income	0.56	0.24
Net realized and unrealized gain on investments	<u>0.06²</u>	<u>0.14</u>
Total from investment operations	<u>0.62</u>	<u>0.38</u>
Less distributions declared to shareholders		
Net investment income	(0.54)	(0.24)
Net realized capital gains	<u>(0.05)</u>	<u>0.00</u>
Total distributions	<u>(0.59)</u>	<u>(0.24)</u>
Net asset value - end of year	<u>\$10.17</u>	<u>\$10.14</u>
Total investment return	6.26%	3.86%
Ratios (to average net assets)/supplemental data:		
Expenses after reimbursement and		
fees paid indirectly	1.20%	1.20%
Expenses before reimbursement and		
fees paid indirectly ¹	3.91%	3.82%
Net investment income	5.06%	2.69%
Portfolio turnover	31%	21%
Net assets at end of year (000's)	\$2,708	\$3,034

¹Ratio after expense reimbursement, before fees paid indirectly, is 1.20% for 2005 and 2004 respectively.

²The amount shown for the year ended December 31, 2005 for a share outstanding throughout the year does not accord with the aggregate net losses on investments for that period because of the sales and repurchases of Fund shares in relation to fluctuating market value of the investments of the Fund.

See page 14 for notes to the financial statements.

Aegis High Yield Fund
Notes to Financial Statements
December 31, 2005

1. The Organization

Aegis High Yield Fund (the "Fund") is registered under the Investment Company Act of 1940 (the "1940 Act") as a diversified open-end management company. The Fund is a series of The Aegis Funds, a Delaware statutory trust established July 11, 2003. The Fund commenced operations January 1, 2004. Through December 31, 2003, the Fund had no operations other than those matters related to organization and registration as an investment company, the registration of shares for sale under the Securities Act of 1933, and the sale of 10,000 shares of the Fund at \$10.00 per share on September 29, 2003 to William S. Berno. The sale was settled in the ordinary course of business on September 29, 2003 with the transfer of \$100,000.

The Fund's principal investment goal is to seek maximum total return with an emphasis on high current income by investing primarily in a portfolio of corporate bonds rated less than investment grade.

2. Summary of Significant Accounting Policies

Security valuation. Investments in securities are valued based on market quotations or on data furnished by an independent pricing service. Short-term notes are stated at amortized cost, which is equivalent to value. Restricted securities and other securities for which market quotations are not readily available are valued at fair value as determined by the Board of Trustees. In determining fair value, the Board procedures consider all relevant qualitative and quantitative factors available. These factors are subject to change over time and are reviewed periodically. The values assigned to fair value investments are based on available information and do not necessarily represent amounts that might ultimately be realized, since such amounts depend on future developments inherent in long-term investments. Further, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material. At December 31, 2005, none of the Fund's assets were fair valued. Where a security is traded in more than one market, which may include foreign markets, the securities are generally valued on the market considered by the Fund's advisor to be the primary market. The Fund will value its foreign securities in U.S. dollars on the basis of the then-prevailing currency exchange rates.

Aegis High Yield Fund
Notes to Financial Statements
December 31, 2005

Cash. Cash includes deposits held at the Fund's custodian in a variable rate account at the applicable interest rate.

Federal income taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code that are applicable to regulated investment companies and to distribute all its taxable income to shareholders. Therefore, no federal income tax provision is required.

Expenses paid indirectly. Credits earned on temporarily uninvested cash balances at the custodian are used to reduce the Fund's custody charges. Custody expense in the statement of operations is presented before the reduction for credits, which were \$37 for the year ended December 31, 2005.

Distributions to shareholders. Distributions to Fund shareholders, which are determined in accordance with income tax regulations, are recorded on the ex-dividend date. Distributions of net investment income, if any, are made monthly. Net realized gains from investment transactions, if any, will be distributed to shareholders at least annually.

Use of estimates. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Other. The Fund records security transactions based on the trade date. Interest income is recognized on the accrual basis and includes accretion of discounts and amortization of premiums.

In the normal course of business, the Fund enters into contracts that contain a variety of representations, which provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

Aegis High Yield Fund
Notes to Financial Statements
December 31, 2005

3. Advisory Fees and Other Transactions with Affiliates

The Fund entered into an investment management and advisory services agreement (the "Agreement") with Aegis Financial Corporation (the "Advisor") that provides for fees to be computed at an annual rate of 0.90% of the Fund's average daily net assets. The Agreement shall remain in force through March 31, 2006 and may be renewed for additional one-year periods thereafter if approved annually by a majority of the independent members of the Board. The Agreement may be terminated at any time, without penalty, by the Fund on sixty (60) days' written notice or by the Advisor on ninety (90) days' written notice. The Fund and the Advisor have also entered into an expense limitation agreement that provides for an expense reimbursement from the Advisor if the Fund's expenses, exclusive of taxes, interest, fees incurred in acquiring or disposing of portfolio securities, and extraordinary expenses, exceed 1.20% of the Fund's average daily net assets. During the year ended December 31, 2005, the Advisor reimbursed the Fund \$88,092.

The Fund has agreed to repay the Advisor for amounts waived or reimbursed by the Advisor pursuant to the expense limitation agreement provided that such repayment does not cause the Fund's expenses, exclusive of taxes, interest, fees incurred in acquiring or disposing of portfolio securities and extraordinary expenses, to exceed 1.20% and the repayment is made within three years after the year in which the Advisor incurred the expense. As of December 31, 2005, there was \$145,740 of fees available to be recovered no later than December 31, 2008, of which \$57,648 and \$88,092 are recoverable through December 31, 2007 and 2008, respectively.

The Fund entered into an agreement with BGB Fund Services, Inc., effective January 1, 2004 to provide fund accounting, administration, transfer agency and shareholder services to the Fund at an annual rate of 0.25% of the Fund's average daily net assets.

BGB Securities, Inc., a registered broker/dealer, executes portfolio transactions on behalf of the Fund. Brokerage commissions paid to BGB Securities amounted to \$589 for the year ended December 31, 2005.

Certain officers and trustees of the Fund are also officers and directors of the Advisor and BGB Fund Services, Inc. The Fund pays each trustee not affiliated with the Advisor fees in cash or Fund shares of \$1,000 for each attended board meeting and \$500 for each attended committee meeting.

Aegis High Yield Fund
Notes to Financial Statements
December 31, 2005

4. Investment Transactions

Purchases and sales of investment securities, excluding accrued interest, were \$1,645,566 and \$757,215, respectively, for the year ended December 31, 2005. The specific identification method is used to determine tax cost basis when calculating realized gains and losses.

5. Distributions to Shareholders and Tax Components of Net Assets

The tax character of distributions paid during the year ended December 31, 2005 were as follows:

Distributions paid from ordinary income	\$160,007
Distributions paid from net realized capital gains	<u>13,921</u>
Total Distributions	<u>\$173,928</u>

As of December 31, 2005, the components of net assets on a tax basis were as follows:

Undistributed ordinary income	\$ 6,340
Unrealized appreciation	135,210
Unrealized depreciation	(120,303)
Shares of beneficial interest	<u>2,687,033</u>
Total	<u>\$2,708,280</u>

6. Reclassification of Permanent Differences

Primarily as a result of differing book/tax treatment of short term capital gains, on December 31, 2005, undistributed net investment income was increased by \$2,034 and accumulated net realized gain was decreased by \$2,034. This reclassification had no effect on the net assets of the Fund.

7. Change of Independent Registered Public Accounting Firm

On July 28, 2004, Briggs, Bunting & Dougherty, LLP ("BBD") was selected to replace PricewaterhouseCoopers LLP ("PWC") as the Fund's independent registered public accounting firm for the 2004 fiscal year. The Trust's selection of BBD was approved by both the Audit Committee and the Board of Trustees.

From January 1, 2004 (commencement of operations) through the date of the engagement of BBD, there were no disagreements between the Fund and PWC on any matter of accounting principles or practices or financial statement disclosure.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of The Aegis Funds and Shareholders of Aegis High Yield Fund

We have audited the accompanying statement of assets and liabilities of the Aegis High Yield Fund, a series of shares of The Aegis Funds, including the schedule of portfolio investments, as of December 31, 2005, the related statement of operations for the year then ended, and the statement of changes in net assets and the financial highlights for each of the two years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2005 by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Aegis High Yield Fund as of December 31, 2005, the results of its operations for the year then ended, and the changes in its net assets and its financial highlights for each of the two years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Briggs, Bunting & Dougherty, LLP

**Philadelphia, Pennsylvania
January 19, 2006**

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Aegis High Yield Fund
Other Information (Unaudited)
December 31, 2005

Fund Trustees and Officers

<u>Name, Age and Address</u>	<u>Position</u>	<u>Business Experience and Trusteeships During the Past 5 Years</u>
William S. Berno* (52) 1100 North Glebe Road Suite 1040 Arlington, Virginia 22201	President, Trustee	President and Managing Director of Aegis Financial Corporation since 1994; President and Director of The Aegis Value Fund, Inc. since 1997; President and Trustee of the Fund since 2003.
Scott L. Barbee* (34) 1100 North Glebe Road Suite 1040 Arlington, Virginia 22201	Treasurer, Trustee	Treasurer and Managing Director of Aegis Financial Corporation since 1997; Treasurer and Director of The Aegis Value Fund, Inc. since 1997; Treasurer and Trustee of the Fund since 2003.
Edward P. Faberman (59) Wiley Rein & Fielding 1776 K Street N.W. Washington, D.C. 20006	Trustee	Attorney with the firm of Wiley Rein & Fielding since 2005; Attorney with the firm of Ungaretti & Harris, 1996-2005; Director of the Aegis Value Fund, Inc. since 1997; Trustee of the Fund since 2003.
Eskander Matta (35) Wells Fargo & Co. 550 California Street 2nd Floor San Francisco, California 94111	Trustee	Senior VP of Enterprise Internet Services, Wells Fargo & Co. since 2002; Director of Strategic Consulting with Cordiant Communications, 2001-2002; Director of the Aegis Value Fund Inc. since 1997; Trustee of the Fund since 2003.
Albert P. Lindemann III (43) Faison Enterprises 121 West Trade Street Suite 2550 Charlotte, North Carolina 28202	Trustee	Director, Faison Enterprises, since 2000; Director of the Aegis Value Fund, Inc. since 2000; Trustee of the Fund since 2003.

Aegis High Yield Fund
Other Information (Unaudited)
December 31, 2005

Fund Trustees and Officers (Continued)

<u>Name, Age and Address</u>	<u>Position</u>	<u>Business Experience and Trusteeships During the Past 5 Years</u>
Paul Gambal* (46) 1100 North Glebe Road Suite 1040 Arlington, VA 22201	Secretary	Chairman, Secretary and Managing Director of Aegis Financial Corporation since 1994; Secretary of the Aegis Value Fund, Inc. since 1997; Secretary of the Fund since 2003.
Skyler S. Showell* (31) 1100 North Glebe Road Suite 1040 Arlington, VA 22201	Chief Compliance Officer	Chief Compliance Officer of Aegis Financial Corporation since 2003; Compliance Consultant, 2002-2003; Law student, 2001; Chief Compliance Officer of the Fund since 2004.

* indicates persons who are affiliated with Aegis Financial Corporation, the Advisor, and are therefore considered "interested persons" under the Investment Company Act of 1940.

The Fund's Statement of Additional Information includes additional information about the Trustees and is available, without charge, by calling the Fund's toll-free phone number, (800)528-3780.

Proxy Voting

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available by request, without charge, by calling the Fund's toll-free telephone number, 800-528-3780. Information regarding how the Fund voted proxies, if any, relating to portfolio securities during the most recent 12-month period ended June 30, 2004 is available upon request, without charge, by calling 800-528-3780. The Fund's proxy voting policies and procedures and voting record are also available on the U.S. Securities and Exchange Commission (SEC) website at <http://www.sec.gov>.

Code of Ethics

The Fund has adopted a code of ethics applicable to its principal executive officer and principal financial officer. A copy of this code is available, without charge, by calling the Fund toll-free phone number, (800)528-3780.

Aegis High Yield Fund
Other Information (Unaudited)
December 31, 2005

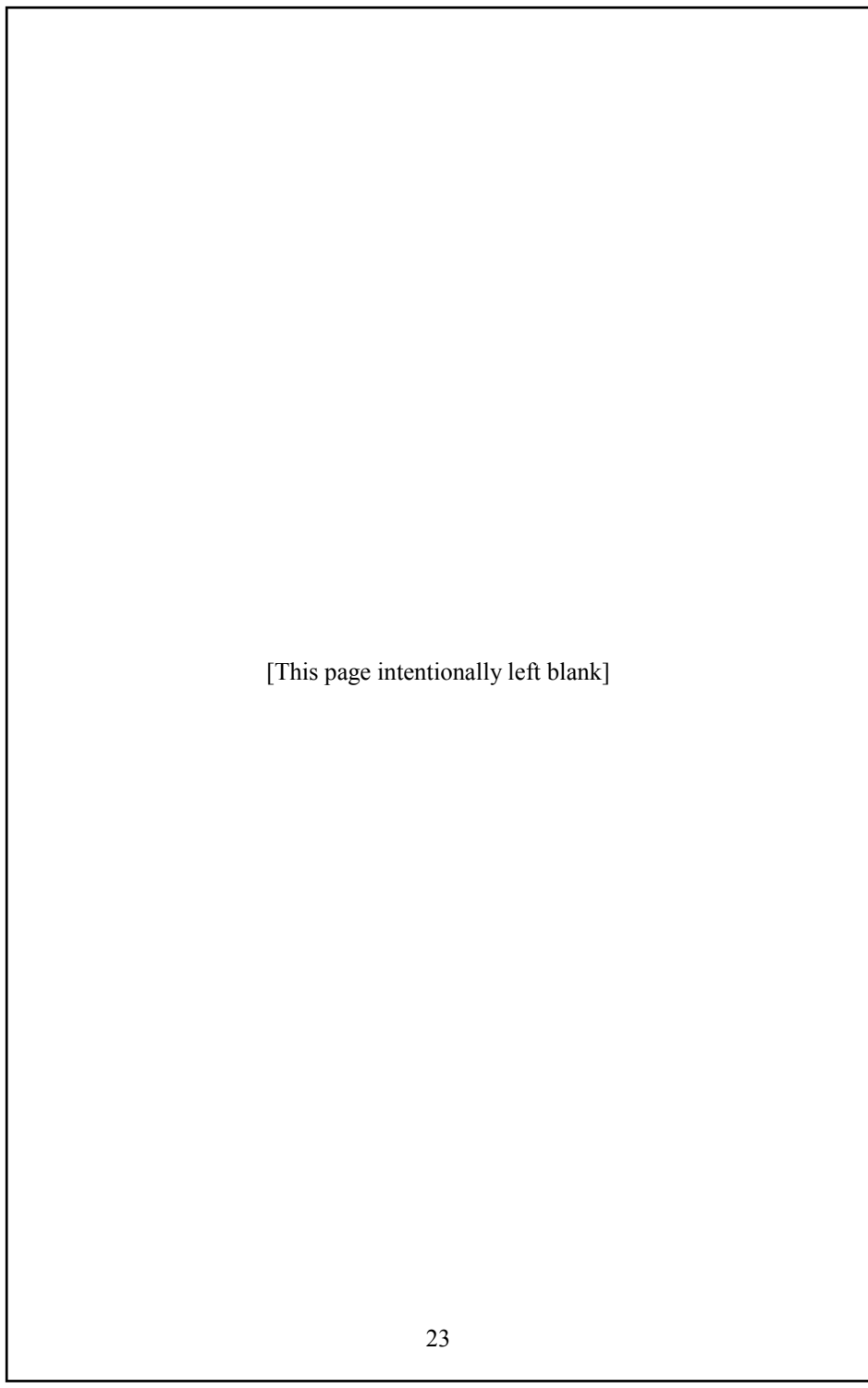
Fund Holdings:

The complete schedules of Fund holdings for the second and fourth quarters of each fiscal year are contained in the Fund's semi-annual and annual shareholder reports, respectively. The Fund files complete schedules of Fund holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q within 60 days after the end of the period. Copies of the Fund's Form N-Q are available without charge, upon request, by contacting the Fund at 1-800-528-3780 and on the SEC's website at <http://www.sec.gov>. You may also review and copy Form N-Q at the SEC's Public Reference Room in Washington, D.C. For more information about the operation of the Public Reference Room, please call the SEC at 1-800-SEC-0330.

Shareholder Tax Information:

Certain tax information regarding the Fund is required to be provided to shareholders based upon the Fund's income and distributions for the taxable year ended December 31, 2005.

During the year ended December 31, 2005, the Fund paid distributions per share of \$0.54 and \$0.05 for ordinary income and long-term capital gains, respectively. During the fiscal year ended December 31, 2005, the Fund paid distributions from ordinary income and long-term capital gain of \$160,007 and \$13,921, respectively.



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Aegis High Yield Fund
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Arlington, Virginia 22201
Phone: (800) 528-3780
Fax: (703) 528-1395
Internet: www.aegisfunds.com

Board of Trustees

Scott L. Barbee
William S. Berno
Edward P. Faberman
Albert P. Lindemann III
Eskander Matta

Officers

William S. Berno, President
Scott L. Barbee, Treasurer
Paul Gambal, Secretary
Skyler S. Showell, Chief Compliance Officer

Investment Advisor

Aegis Financial Corporation
1100 North Glebe Road, Suite 1040
Arlington, Virginia 22201

Custodian

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Kansas City, Missouri 64106

**Independent Registered
Public Accounting Firm**

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Counsel

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Washington, D.C. 20005