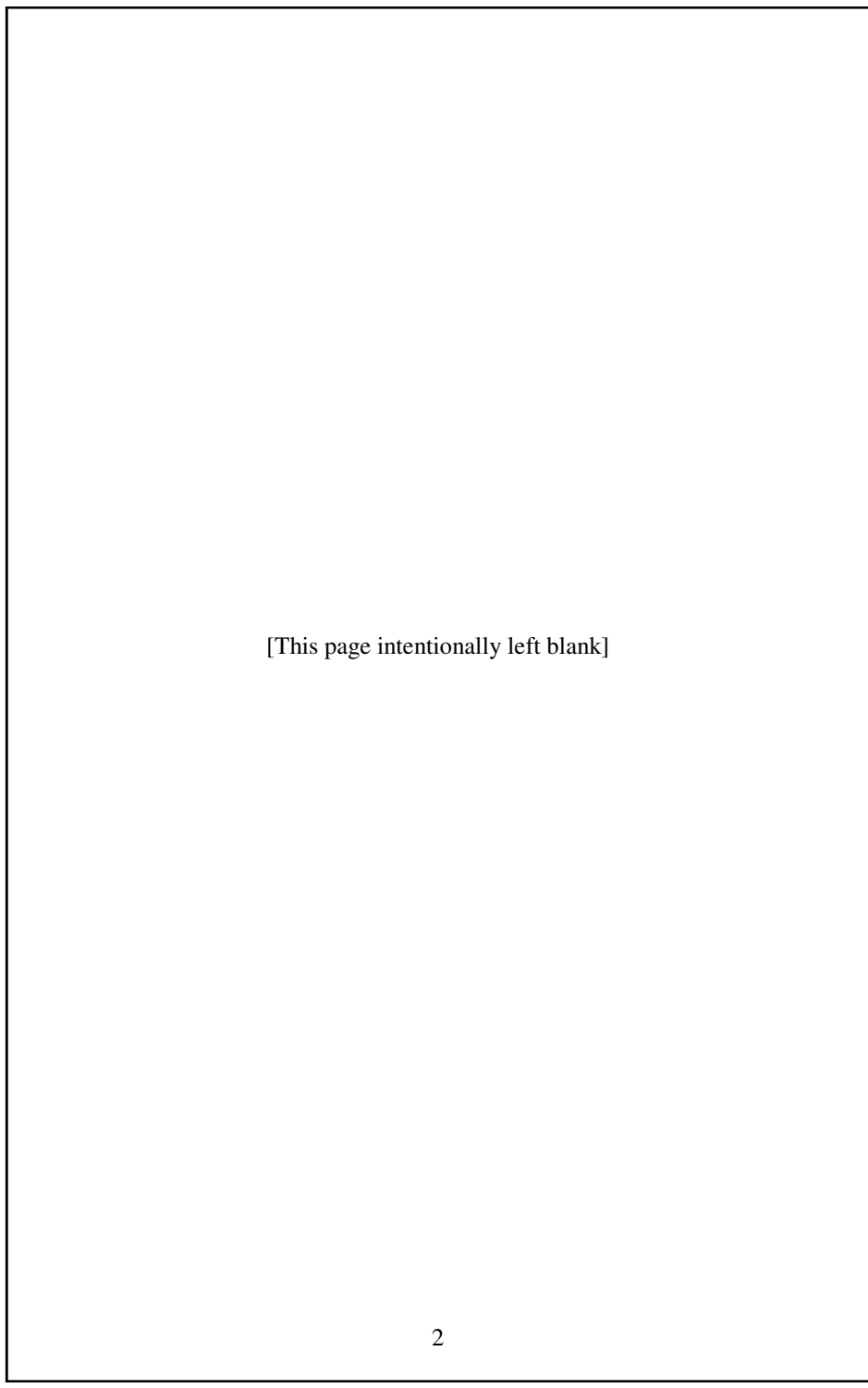


Aegis High Yield Fund

Third Annual Report

December 31, 2006



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Shareholders' Letter

February 20, 2007

To the Shareholders of the Aegis High Yield Fund:

We are pleased to present the Aegis High Yield Fund's Third Annual Report, for the fiscal year ended December 31, 2006.

We want to take this opportunity to welcome 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 performance record. We will briefly review the objectives and strategy of the Aegis High Yield Fund.

The Aegis High Yield Fund seeks to earn consistent total returns that exceed its benchmark index over periods of three to five years, while striving for below-average risk compared to its peers. The Fund's long-term investment strategy is based on its 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 purchased for the portfolio are not necessarily the highest-yielding issues in the market. Our goal is to maximize risk-adjusted long-term total return.

For the fiscal year ended December 31, 2006, the Fund posted a total return of 15.13%, versus a total return of 11.85% for its benchmark, the Lehman U.S. Corporate High Yield Index. From inception at January 1, 2004, the Fund's annualized total return is 8.31% compared to 8.49% for the Lehman Index.

The weighted average maturity of the Fund portfolio at December 31 was approximately 3.8 years. The duration of the Fund portfolio was 3.07 years, compared to 4.43 years for the Lehman Index. Duration is a measure of the sensitivity of a portfolio's value to changes in interest rates. The Fund's short duration makes it less sensitive to a rise in interest rate risk than the Lehman index.

The Fund's net asset value at December 31 was \$10.69 per share versus \$10.17 one year ago. Income distributions totaling 76.1 cents per share and net capital gains of 20.3 cents per share were paid during the year. At December 31, the Fund's SEC 30-day annualized yield to maturity was 6.53%.

The bulk of the Fund's total return for the year was the result of participating in the strong market conditions favoring the high-yield bond sector. The market's

robust 11% return was far better than expected at the beginning of the year. A steady economy, continuing easy credit and very low defaults combined to create a rally in high-yield bond prices during the year.

Nevertheless, the Fund was able to comfortably surpass its benchmark index return. The primary source of the Fund's outperformance for the year was the portion of the portfolio invested in lower-rated issues. We enjoyed excellent returns in Del Laboratories, Sungard Data, Great Lakes Dredge and Alliance One. As we have in the past, the Fund held investments in bankrupt securities, and Calpine convertible bonds were a strong contributor to portfolio returns.

The Fund continues to be positioned cautiously in its holdings. We remain in a period when yields and spreads in the credit markets are not particularly generous. We are now focused on preservation of capital, but will continue to look for attractive opportunities that may be presented in the months ahead.

A more in-depth review of the Fund's performance and outlook can be found in the Advisor's report that is posted on our website. 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.

Finally, we want you to know that our employees and their family members have expressed their confidence in the Fund by purchasing well over \$1 million of shares personally. We thank you for choosing to invest in the Fund. We are pleased to have you with us.

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, 2006 - December 31, 2006.

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 (07/01/2006)	Ending Account Value (12/31/2006) ¹	Expenses Paid During Period ²	Ending Account Value (12/31/2006)	Expenses Paid During Period ²
Aegis High Yield Fund	\$1,000.00	\$1,085.40	\$6.31	\$1,019.16	\$6.11

¹The actual ending account value is based on the actual total return of the Fund for the period July 1, 2006 to December 31, 2006 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, 2006 to December 31, 2006 were 8.54%.

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 07/01/2006 and 12/31/2006).

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

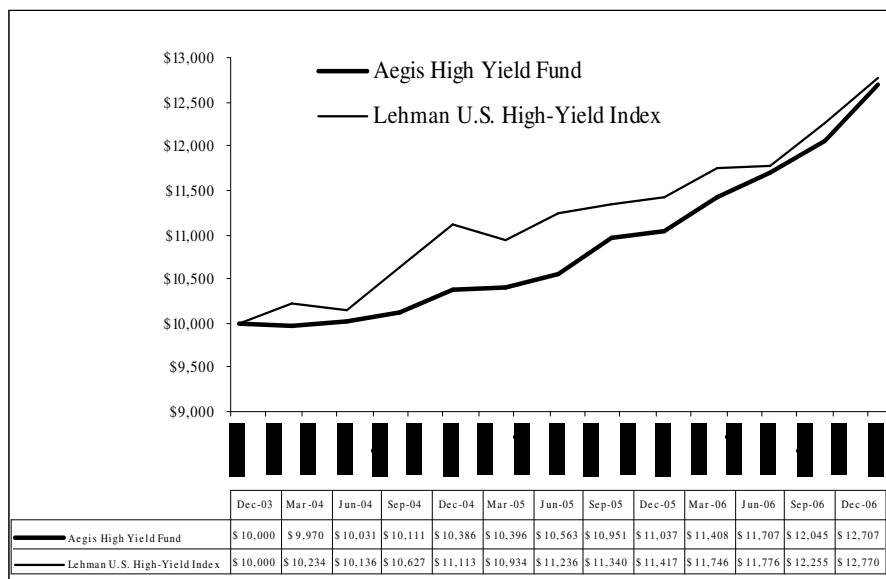
The table above also provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used 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, 2006)

	<u>Aegis High Yield</u>	<u>Lehman HY Index</u>
Trailing 1 Year	15.13%	11.85%
Since inception (January 1, 2004)	8.31%	8.49%

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	94.5%
Agriculture	3.3%
Auto Parts & Equipment	3.0%
Building Materials	2.7%
Commercial Services	9.6%
Computers	6.4%
Cosmetics - Personal Care	4.5%
Diversified Financial Services	8.9%
Electric	7.6%
Entertainment	3.1%
Environmental Control	3.1%
Food	6.3%
Forest Products & Paper	2.5%
Healthcare - Services	5.6%
Home Builders	6.2%
Miscellaneous Manufacturing	3.1%
Pharmaceuticals	3.2%
Pipelines	3.1%
Retail	6.2%
Telecommunications	3.0%
Transportation	3.1%
Investment Companies	4.6%
Other Assets and Liabilities	0.9%
Total Net Assets	<u>100.0%</u>

Credit Quality - % of Corporate Bonds

BBB or Higher	0.0%
BB	17.0%
B	57.7%
CCC or other	<u>25.3%</u>
Total	<u>100.0%</u>

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

Less than 1 year	7.8%
1-3 years	25.0%
4-6 years	42.1%
7-10 years	<u>25.1%</u>
Total	<u>100.0%</u>

Aegis High Yield Fund
Schedule of Portfolio Investments
December 31, 2006

<u>Corporate Bonds - 94.5%</u>	<u>Principal Amount</u>	<u>Market Value</u>
<u>Agriculture - 3.3%</u>		
Alliance One Intl. Inc., Company Guarantee, 11.00%, 5/15/2012	100,000	\$107,000
<u>Auto Parts & Equipment - 3.0%</u>		
Meritor Automotive, Inc., Notes, 6.80%, 2/15/2009	100,000	98,250
<u>Building Materials - 2.7%</u>		
Ply Gem Industries, Inc., Sr. Subord. Notes, 9.00%, 2/15/2012	100,000	85,500
<u>Commercial Services - 9.6%</u>		
Chemed Corp., Sr. Notes, 8.75%, 2/24/2011	102,000	106,080
Great Lakes Dredge & Dock Corp. Sr. Subord. Notes, 7.75%, 12/15/2013	100,000	98,000
Service Corp. Intl. Sr. Unsec. Notes, 6.50%, 3/15/2008	100,000	<u>101,000</u>
		305,080
<u>Computers - 6.4%</u>		
Sungard Data Systems, Inc., Company Guarantee, 10.25%, 8/15/2015	100,000	107,250
Unisys Corp. Sr. Notes, 7.875%, 4/1/2008	100,000	<u>100,250</u>
		207,500
<u>Cosmetics - Personal Care - 4.5%</u>		
Del Laboratories, Inc., Company Guarantee, 8.00%, 2/1/2012	153,000	144,203
<u>Diversified Financial Services - 8.9%</u>		
Ford Motor Credit Co., Notes, 6.50%, 1/25/2007	100,000	100,018
GMAC Sr. Unsec. Notes, 5.85%, 1/14/2009	100,000	99,668
PMA Capital Sr. Notes, 8.50%, 6/15/2018	80,000	<u>84,880</u>
		284,566
<u>Electric - 7.6%</u>		
Calpine Corp. Default, 7.75%, 6/1/2015 (1)	200,000	138,000
Reliant Energy, Inc., Secured, 9.50%, 7/15/2013	100,000	<u>107,750</u>
		245,750

Continued

See page 15 for notes to the financial statements.

Aegis High Yield Fund
Schedule of Portfolio Investments
December 31, 2006

<u>Corporate Bonds - 94.5% (Continued)</u>	<u>Principal Amount</u>	<u>Market Value</u>
<u>Entertainment - 3.1%</u>		
Mohegan Tribal Gaming Authority Sr. Subord. Notes, 6.375%, 7/15/2009	100,000	\$100,500
<u>Environmental Control - 3.1%</u>		
Allied Waste N.A. Sr. Notes, 6.50%, 11/15/2010	100,000	100,750
<u>Food - 6.3%</u>		
Dole Foods Co., Sr. Notes, 8.625%, 5/1/2009	100,000	99,875
Ingles Markets, Inc., Sr. Subord. Notes, 8.875%, 12/1/2011	100,000	<u>104,750</u> 204,625
<u>Forest Products & Paper - 2.5%</u>		
Pope & Talbot, Inc., Sr. Notes, 8.375%, 6/1/2013	100,000	81,000
<u>Healthcare - Services - 5.6%</u>		
Alliance Imaging, Inc., Sr. Subord. Notes, 7.25%, 12/15/2012	100,000	95,500
HCA, Inc., Debentures, 7.19%, 11/15/2015	100,000	<u>86,273</u> 181,773
<u>Home Builders - 6.2%</u>		
Standard Pacific Corp., Sr. Subord. Notes, 9.25%, 4/15/2012	100,000	102,750
WCI Communities, Inc., Company Guarantee, Subord., 9.125%, 5/1/2012	100,000	<u>95,750</u> 198,500
<u>Miscellaneous Manufacturing - 3.1%</u>		
Polypore, Inc., Sr. Subord. Notes, 8.75%, 5/15/2012	100,000	100,000
<u>Pharmaceuticals - 3.2%</u>		
Biovail Corp. Sr. Subord. Notes, 7.875%, 4/1/2010	100,000	102,625
<u>Pipelines - 3.1%</u>		
El Paso Corp. Debentures, 6.50%, 6/1/2008	100,000	101,375

Continued

See page 15 for notes to the financial statements.

Aegis High Yield Fund
Schedule of Portfolio Investments
December 31, 2006

<u>Corporate Bonds - 94.5% (Continued)</u>	<u>Principal Amount</u>	<u>Market Value</u>
<u>Retail - 6.2%</u>		
Finlay Fine Jewelry Corp. Sr. Notes, 8.375%, 6/1/2012	100,000	\$96,250
General Nutrition Center, Inc., Sr. Subord. Notes, 8.50%, 12/1/2010	100,000	<u>103,250</u> 199,500
<u>Telecommunications - 3.0%</u>		
Intelsat Ltd. Sr. Notes, 5.25%, 11/1/2008	100,000	97,750
<u>Transportation - 3.1%</u>		
Ship Finance Intl. Ltd. Sr. Notes, 8.50%, 12/15/2013	100,000	<u>100,375</u>
Total Corporate Bonds (Cost \$2,889,697)		<u>3,046,622</u>
<u>Investment Companies - 4.6%</u>		
Federated Prime Obligations Fund	148,410	<u>148,410</u>
Total Investment Companies (Cost \$148,410)		<u>148,410</u>
Total Investments - 99.1% (Cost \$3,038,107)		<u>3,195,032</u>
Other Assets and Liabilities - 0.9%		<u>28,838</u>
Net Assets - 100.0%		<u>\$ 3,223,870</u>

(1) Non-income producing security due to default or bankruptcy.

See page 15 for notes to the financial statements.

Aegis High Yield Fund
Statement of Assets and Liabilities
December 31, 2006

Assets

Investments at market value (cost \$3,038,107)	\$3,195,032
Interest receivable	54,178
Prepaid assets	<u>8,476</u>
Total assets	<u>3,257,686</u>

Liabilities

Accrued advisory fees	2,660
Accrued expenses	<u>31,156</u>
Total liabilities	<u>33,816</u>

<i>Net assets</i> (301,607 shares of beneficial interest outstanding; unlimited number of shares authorized; no par value)	<u>\$3,223,870</u>
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Net assets consist of:

Paid-in capital	\$3,066,898
Undistributed net investment income	47
Accumulated net realized gain	0
Net unrealized appreciation	<u>156,925</u>

<i>Net assets</i>	<u>\$3,223,870</u>
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<i>Net asset value per share</i>	<u>\$10.69</u>
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See page 15 for notes to the financial statements.

Aegis High Yield Fund
Statement of Operations
For the Year Ended December 31, 2006

<i>Investment Income</i>	
Interest income	<u>222,405</u>
Total income	<u>222,405</u>
<i>Expenses</i>	
Investment advisory fees	24,083
Transfer agency and administration fees	20,236
Transfer agency and administration fees — affiliate	3,607
Registration fees	11,000
Custody fees	7,263
Printing and postage costs	3,000
Legal fees	28,000
Audit fees	12,500
Trustees fees	20,000
Insurance and other	2,730
Miscellaneous fees	<u>5,378</u>
Gross expenses	<u>137,797</u>
Waiver of fees and reimbursement of expenses	<u>105,699</u>
Net expenses	<u>32,098</u>
<i>Net investment income</i>	<u>190,307</u>
<i>Realized and unrealized gain on investments</i>	
Net realized gain on investments	59,673
Change in unrealized appreciation of investments for the year	<u>142,018</u>
<i>Net realized and unrealized gain on investments</i>	<u>201,691</u>
<i>Net increase in net assets resulting from operations</i>	<u>\$391,998</u>

See page 15 for notes to the financial statements.

Aegis High Yield Fund
Statements of Changes in Net Assets
For the Year Ended

	December 31,	
	<u>2006</u>	<u>2005</u>
<i>Increase in net assets from operations</i>		
Investment income - net	\$190,307	\$164,313
Net realized gain on investments	59,673	13,921
Change in unrealized appreciation/(depreciation)	<u>142,018</u>	<u>(27,627)</u>
Net increase in net assets		
resulting from operations	<u>391,998</u>	<u>150,607</u>
<i>Distributions</i>		
Net investment income (\$.76 and \$.54 per share respectively)	(196,710)	(160,007)
Net realized gain from investments (\$.20 and \$.05 per share respectively)	<u>(59,673)</u>	<u>(13,921)</u>
Total distributions	<u>(256,383)</u>	<u>(173,928)</u>
<i>Capital share transactions*</i>		
Subscriptions	2,739,276	2,422,128
Distributions reinvested	240,194	164,109
Redemptions	<u>(2,599,495)</u>	<u>(2,888,622)</u>
Total capital share transactions	<u>379,975</u>	<u>(302,385)</u>
Net increase/(decrease) in net assets	515,590	(325,706)
<i>Net assets at beginning of year</i>	<u>2,708,280</u>	<u>3,033,986</u>
<i>Net assets at end of year</i>	<u>\$3,223,870</u>	<u>\$2,708,280</u>
Undistributed net investment income (distributions in excess of net investment income) included in net assets at end of year	\$47	\$6,340
<i>*Share information</i>		
Subscriptions	257,931	239,535
Distributions reinvested	22,785	16,151
Redemptions	<u>(245,340)</u>	<u>(288,739)</u>
Net increase/(decrease) in shares	<u>35,376</u>	<u>(33,053)</u>

See page 15 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 each year:

	December 31		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<i>Per share data:</i>			
Net asset value - beginning of year	<u>\$10.17</u>	<u>\$10.14</u>	<u>\$10.00*</u>
Income from investment operations-			
Net investment income	0.74	0.56	0.24
Net realized and unrealized gain on investments	<u>0.74</u>	<u>0.06¹</u>	<u>0.14</u>
Total from investment operations	<u>1.48</u>	<u>0.62</u>	<u>0.38</u>
Less distributions declared to shareholders			
Net investment income	(0.76)	(0.54)	(0.24)
Net realized capital gain	<u>(0.20)</u>	<u>(0.05)</u>	<u>0.00</u>
Total distributions	<u>(0.96)</u>	<u>(0.59)</u>	<u>(0.24)</u>
Net asset value - end of year	<u>\$10.69</u>	<u>\$10.17</u>	<u>\$10.14</u>
Total investment return	15.13%	6.26%	3.86%
<i>Ratios (to average net assets)/supplemental data:</i>			
Expenses after reimbursement and fees paid indirectly	1.20%	1.20%	1.20%
Expenses before reimbursement and fees paid indirectly ²	5.15%	3.91%	3.82%
Net investment income	7.12%	5.06%	2.69%
Portfolio turnover	58%	31%	21%
Net assets at end of year (000's)	\$3,224	\$2,708	\$3,034

*Fund commenced operations January 1, 2004.

¹The 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 repurchase of Fund shares in relation to fluctuating market value of the investments of the Fund.

²Ratio after expense reimbursement, before fees paid indirectly, is 1.20% for each year.

See page 15 for notes to the financial statements.

Aegis High Yield Fund
Notes to Financial Statements
December 31, 2006

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.

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, 2006, none of the Fund's net assets were fair valued in accordance with the procedures adopted by the Board. 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.

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.

Aegis High Yield Fund
Notes to Financial Statements
December 31, 2006

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.

The character of distributions made during the year from net investment income or net realized gain may differ from the characterization for federal income tax purposes due to differences in the recognition of income, expense and gain/(loss) items for financial statement and tax purposes. Where appropriate, reclassifications between net asset accounts are made for such differences that are permanent in nature.

Use of estimates. The preparation of financial statements in conformity 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 and disclosure of contingent 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.

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 December 31, 2007 and may be renewed for additional one-year periods thereafter if approved annually by a majority of the independent members of the Board. The

Aegis High Yield Fund
Notes to Financial Statements
December 31, 2006

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, 2006, the Advisor reimbursed the Fund \$105,699.

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, 2006, there was \$251,439 of fees available to be recovered no later than December 31, 2009, of which \$57,648, \$88,092 and \$105,699 are recoverable through December 31, 2007, 2008 and 2009 respectively.

The Fund formerly had an agreement with BGB Fund Services, Inc. to provide fund accounting, administration, transfer agency and shareholder services to the Fund for a fee of 0.25% on Fund assets up to \$200 million and 0.10% on Fund assets in excess of \$200 million. Fees paid to BGB Fund Services, Inc. amount to \$3,607 for the year ended December 31, 2006. Effective April 1, 2006, UMB Investment Services, Inc., an unaffiliated service provider, succeeded BGB Fund Services, Inc. as Fund accountant and administrator. Effective August 14, 2006, UMB Investment Services, Inc. succeeded BGB Fund Services, Inc. as transfer agent.

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.

4. Investment Transactions

Purchases and sales of long term investment securities (excluding short term investments) were \$1,617,560 and \$1,376,552, respectively, for the year ended December 31, 2006. The specific identification method is used to determine tax cost basis when calculating realized gains and losses.

Aegis High Yield Fund
Notes to Financial Statements
December 31, 2006

5. Distributions to Shareholders and Tax Components of Net Assets

At December 31, 2006, gross unrealized appreciation and depreciation of investments, based on cost for federal income tax purposes were as follows:

Cost of Investments	<u>\$3,038,107</u>
Gross Unrealized Appreciation	\$157,176
Gross Unrealized Depreciation	<u>(251)</u>
Net Unrealized Appreciation	<u>\$156,925</u>

As of December 31, 2006, the components of accumulated earnings on a tax basis were as follows:

Undistributed ordinary income	\$ 47
Unrealized appreciation on investments	<u>156,925</u>
Total accumulated earnings	<u>\$ 156,972</u>

The tax components of dividends paid during the years ended December 31, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Distributions paid from ordinary income	\$196,710	\$160,007
Distributions paid from long-term capital gains	<u>59,673</u>	<u>13,921</u>
Total Distributions	\$256,383	\$173,928

For the year ended December 31, 2006, the Fund made a reclassification entry increasing undistributed net investment income by \$110 and decreasing paid-in-capital by \$110. This reclassification, which had no effect on the net assets of the Fund, was made to reflect permanent book/tax differences.

Aegis High Yield Fund
Notes to Financial Statements
December 31, 2006

6. Recent Accounting Pronouncements

On July 13, 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the tax positions are "more likely than not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years no later than June 29, 2007. At this time, management is evaluating the implications of FIN 48 and its impact in the financial statements has not yet been determined.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements". The Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. The Statement establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs), and (2) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and is to be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied. Management has recently begun to evaluate the application of the Statement to the Fund, and is not in a position at this time to evaluate the significance of its impact, if any, on the Fund's financial statements.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees of The 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, 2006, and the related statement of operations for the year then ended, and the statement of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the three 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 audits 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, 2006 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, 2006, the results of its operations for the year then ended, and the changes in its net assets for each of the two years in the period then ended and its financial highlights for each of the three years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Briggs, Bunting & Dougherty, LLP

Aegis High Yield Fund
Other Information (Unaudited)

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* (53) 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* (35) 1100 North Glebe Road Suite 1040 Arlington, Virginia 22201	Secretary/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. Secretary of each Fund since 2006.
Eskander Matta (36) 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.
David A. Giannini (53) 30 Rockefeller Plaza, Suite 4250 New York, NY 10112	Trustee	Institutional equity sales and research with Scarsdale Equities since 2006; Institutional equity sales and research with Sanders Morris Harris, 1997-2006; Director of the Aegis Value Fund, Inc. since 2006; Trustee of the Fund since 2006.

Aegis High Yield Fund
Other Information (Unaudited)

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>
Fund Compliance Officer Skyler S. Showell* (32) 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; Chief Compliance Officer of The Aegis Value Fund, Inc. since 2004; 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.

Aegis High Yield Fund **Other Information (Unaudited)**

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, 2006 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.

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, DC. For more information about the operation of the Public Reference Room, please call the SEC at 1-800-SEC-0330.

Tax Information

We are required to advise you within 60 days from the end of the Fund's fiscal year end regarding the Federal tax status of certain distributions received by shareholders during such fiscal year. The information provided below is for the fiscal year ended December 31, 2006.

During the fiscal year the Fund paid a long-term capital gain distribution of \$59,673.

Aegis High Yield Fund
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P.O. Box 2175
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Phone: (800) 528-3780
Internet: www.aegisfunds.com

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Scott L. Barbee
William S. Berno
Eskander Matta
David A. Giannini

Officers

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

Investment Advisor

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Arlington, Virginia 22201-4798

Custodian

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Kansas City, Missouri 64106

Independent Registered

Public Accounting Firm

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